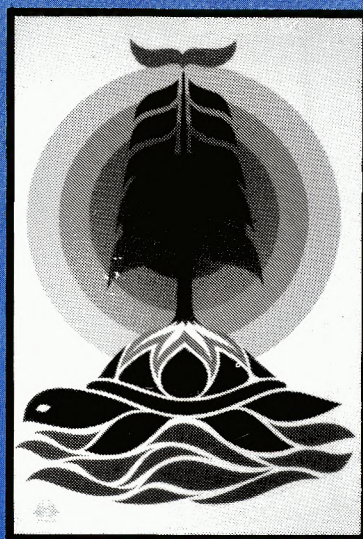
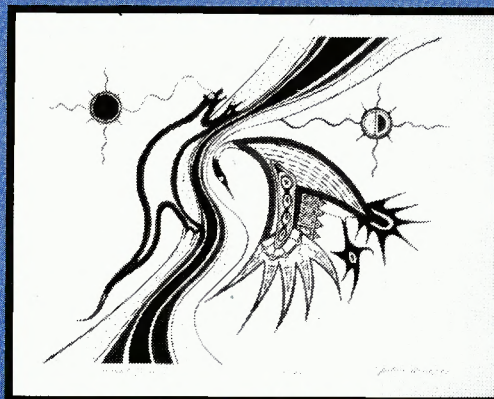




Indian and Northern
Affairs Canada

Affaires indiennes
et du Nord Canada



EVALUATION
OF
IBDS INDIAN BUSINESS DEVELOPMENT SERVICES LTD.
AND
INDIAN EQUITY FOUNDATION

**EVALUATION
OF
IBDS INDIAN BUSINESS DEVELOPMENT SERVICES LTD.
AND
INDIAN EQUITY FOUNDATION**

**FINAL
REPORT**

VOLUME I - MAIN REPORT

**Prepared for:
Alberta Regional Office
Department of Indian Affairs
and Northern Development,
Edmonton
in conjunction with the Evaluation Directorate,
DIAND, Ottawa**

**Prepared by:
The DPA Group Inc.
Calgary, Alberta**

July 21, 1986

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PREFACE AND ACKNOWLEDGEMENTS

This study has been prepared by the DPA Group Inc., economists and management consultants, under contract to the Department of Indian Affairs and Northern Development (DIAND), Government of Canada.

General direction to the study was provided by an Evaluation Advisory Committee consisting of representatives of the Indian Equity Foundation, IBDS Indian Business Development Services Ltd., the Indian Association of Alberta, the Economic and Employment Development Branch of Alberta Region DIAND, the Alberta Indian Agricultural Development Corporation and the Evaluation Directorate of DIAND Ottawa.

The consultants express their appreciation for the assistance provided by the Advisory Committee during the course of this study and for the co-operation provided by the management and staff of the evaluated organizations. Special acknowledgement is also given to the clients and other individuals who were interviewed during the study.

A note on terminology: the Department of Indian Affairs and Northern Development (DIAND) is also known as Indian and Northern Affairs Canada (INAC). The former term is used most commonly in the report to refer to the Department.

**EVALUATION
OF
IBDS INDIAN BUSINESS DEVELOPMENT SERVICES LTD.
AND
INDIAN EQUITY FOUNDATION**

EXECUTIVE SUMMARY

**Prepared by:
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Calgary, Alberta**

July 21, 1986

A. BACKGROUND

The Indian Oil Sands Economic Development Corporation (IOSEDC) and the Indian Equity Foundation (IEF) were established in 1976 by Treasury Board approval of funding pursuant to a ten-year agreement between the Indian Association of Alberta, the Department of Indian Affairs and Northern Development (DIAND) and Syncrude Canada Ltd. The shareholders of both IOSEDC and IEF are the status Indian people of Alberta with the Indian Association of Alberta representing the shareholders as trustees. The original purpose of the two organizations was to assist and encourage Indian businesses to exploit business opportunities arising from the Syncrude oilsands extraction project. As a result of limited opportunities arising in the oilsands area, both organizations shifted to a provincial mandate. In 1983 IOSEDC changed its name to IBDS Indian Business Development Services Ltd. to better reflect its provincial mandate. The IEF and IOSEDC were originally established as independent but complementary organizations. The role of IOSEDC was to provide advisory assistance to develop small businesses to the point of financing at which time applications for equity financing could be made to IEF. The rationale for creating two organizations was that separation of the development and banking functions would ensure objectivity in providing financial assistance and minimize conflicts of interest. IBDS currently provides advisory services to Indian small businesses and management consulting and administrative services to Bands. IEF provides interest-free repayable loans to qualified Indian businesses in Alberta.

Funding for the two organizations has been provided by the Department of Indian Affairs and Northern Development. From fiscal year 1976-1977 to 1984-1985, support from the Department in the form of annual contributions for operations has totalled \$3,089,000 for IBDS and \$855,500 for IEF. In addition, IEF has received a total of \$1,900,000 in capitalization for the equity fund from which the interest free loans are made. The capitalization has been provided by DIAND (\$1.0 million), Syncrude Canada Ltd. (\$0.3 million) and a special federal government contribution from the Western Economic Development Initiative Program (\$0.6 million). The original "Syncrude Agreement" provided for five-year funding to the end of fiscal year 1980-1981, with further support subject to the consideration and approval of the Minister of Indian Affairs and Northern Development. Based on an evaluation completed in October 1980 a further five-year funding commitment was made on the basis of annual contribution agreements from DIAND, Alberta Region.

As IEF and IBDS are approaching the end of their ten-year funding agreement with Indian and Northern Affairs Canada, Alberta Regional Office in conjunction with the Evaluation Directorate of DIAND has commissioned a program evaluation of the two organizations and the monitoring role of the Indian Association of Alberta (IAA) in respect of these entities. The period covered by the evaluation includes fiscal years 1980-1981 to 1984-1985.

This executive summary briefly presents the findings, conclusions and recommendations arising from the evaluation.

B. PURPOSE

The primary purpose of the evaluation was to assess objectively the performances of the two organizations in terms of the efficiency and effectiveness by which they have attained their stated objectives. In addition the evaluation was to:

- assess the rationale and basis for continued operation
- examine alternatives particularly in terms of structure and funding
- recommend improvements where applicable, and
- address other issues which arise in the course of the evaluation

The Terms of Reference further stipulated that attention be given to several key issues:

- the advantages and disadvantages of a merger between IBDS and IEF
- the fee-for-service policy as implemented by IBDS
- resource levels relative to existing and projected demands
- Indian control and participation in the organizations.

The evaluation process provides an opportunity for constructive review of activities and operations thus providing positive forward-looking recommendations for change.

C. APPROACH

The approach followed in conducting the evaluation conforms with the Terms of Reference and the "Principles of the Evaluation of Programs" published by the Comptroller General, Treasury Board of Canada. The following series of tasks was carried out:

- Initial discussions with management of IBDS, IEF, and representatives of DIAND.
- Preparation of a descriptive organizational profile.
- Preparation of an evaluation plan.
- Conduct of an interview program with twenty-one Indian leaders, thirty-eight IBDS and IEF clients and a number of other people familiar with the organization's operations.
- Analysis of relevant documents and internal files.
- Documentation of impacts and effects resulting from IBDS/IEF activities.
- Assessment of each organization's performance.
- Documentation of findings.
- Identification and evaluation of alternatives.
- Formulation of recommendations.

The organizations have been assessed from both internal (i.e. management and staff) and external (i.e. clients and interacting agencies) perspectives. In addition, both joint and independent functions of the two organizations were examined.

D. OVERALL CONCLUSIONS AND PRIORITY RECOMMENDATIONS

The major conclusions and recommendations arising from the evaluation deal, in large part, with the joint functions of IBDS and IEF and with the overall objective of achieving improvement in the effectiveness and efficiency by which business advisory and financial services are provided to Alberta status Indians. These conclusions and recommendations are therefore highlighted in this section to reflect their relative importance and the high priority attached to their consideration. Additional findings and recommendations specific to IBDS and to IEF follow the Summary of Activities found immediately hereafter.

Rationale and Basis for Continuation

Based on a demonstrated need and demand for business development and financial assistance services, it is apparent that **there is a strong rationale for continuation of the provision of these specialized services to Alberta status Indians.**

Need and demand are demonstrated by:

- Growing interest in business development as evidenced by increasing IBDS caseloads and IEF loan applications.
- Continued resistance among conventional lending institutions to finance Indian businesses and a lack of awareness of the potential business opportunities in specific regions.
- Continued disparity between Indian and comparable non-Indian populations in the diversity, number and scale of small business activities.
- Comments from a significant proportion of clients interviewed that IBDS and IEF assistance was instrumental to the success of their businesses.

Furthermore, we conclude that **provincially-based institutions which are accountable to the Indian people of Alberta have several distinct advantages over alternative forms of delivering business development and financial services.** These advantages include: direct responsiveness to the expressed needs of Indians; effective use of limited funds through concentration of effort; a common sense of pride and proprietorship in an Indian-controlled entity; and development of an independent line of responsibility and accountability. Such institutions, working effectively in concert with Bands and Regional Councils, offer the best long-term approach to delivery of certain business development and financial services.

Therefore, with respect to the future role of Indian institutions, it is **RECOMMENDED** that the Department of Indian and Northern Affairs continue to support provincially-based Indian economic development institutions which are accountable to Alberta Indians in both principle and practice.

The devolution of fiscal and operational autonomy to Indian governments and institutions is generally premised on reasonable demonstration of fiscal responsibility and accountability to Indian people. It was the intent in establishing Indian institutions to create credible, responsible and accountable organizations to which decision-making and autonomy could be devolved. **IBDS and IEF have demonstrated acceptable progress in this regard and as such should merit the confidence of DIAND.**

Notwithstanding this statement and the achievements of both IBDS and IEF (as discussed later in this Summary), the following changes to IBDS and IEF have been identified as having the potential to improve the efficiency and effectiveness by which services can be delivered and the objective of business development attained:

- **Merger of the operations of IBDS and IEF**
- **Reduction of selected cost items**
- **Increase in shareholder participation and awareness**
- **Adoption of a proactive business opportunities identification stance**
- **Improvement of follow-up services and loan monitoring**

We believe that implementation of these important changes in conjunction with allocation of appropriate long-term funding from DIAND will form a sound basis for continued delivery of business development and financial assistance. Specific recommendations follow.

Merger and Efficiency Improvement

Significant advantages in terms of efficiency and effectiveness can be expected to result from a merger of IBDS and IEF. These advantages, along with comparative disadvantages, are noted in Exhibit E.1. Disadvantages can potentially be overcome by maintenance of the Equity Fund as a separate reporting entity with a separate loan approving board having external representation, and by clear designation of a loans account manager who handles loan administrative functions, leaving counselling to project officers.

Exhibit E.2 presents an organization chart based on a merger of present IEF and IBDS operations. Based on existing salaries and cost structures a **net annual cost saving of approximately \$56,000 is projected** (broken down as \$15,000 reduction in overhead, \$48,000 reduction in salaries and benefits attributed primarily to a reduction in two administrative support positions, \$8,000 reduction in Board costs, and an increase in \$15,000 for Loan Board costs). A total operating budget of \$491,400 (1985\$) per annum is projected for the merged organization. Additional cost reductions could be achieved by adjusting salaries to levels equal to medians for comparable positions in Alberta (an additional saving of \$18,500 based on the merged structure) and by reducing the President's honorarium and travel to \$28,125 per annum (\$9,800 saving).

The important point is that **the merged organization could achieve a balanced operating budget**, based on 1984/85 joint IEF/IBDS revenues of \$499,256 (including operating grants, interest, professional fees and training fees). In addition, an accumulated surplus revenue from IEF totalling \$600,000 would be available for special projects.

Based on our assessment of merger opportunities, we **RECOMMEND** that the Boards of Directors of IEF and IBDS, and representatives of the Indian Association of Alberta (IAA), as trustees of the shareholders of the organizations, seriously consider the advantages of merging the two organizations and take effective action.

We **RECOMMEND** that the Department of Indian and Northern Affairs actively support the concept of a merger through negotiations with the shareholder trustees (IAA) on future five-year block funding of the restructured organization.

Exhibit E.1 Advantages and Disadvantages of IBDS-IEF Merger

Advantages

Disadvantages

Effectiveness

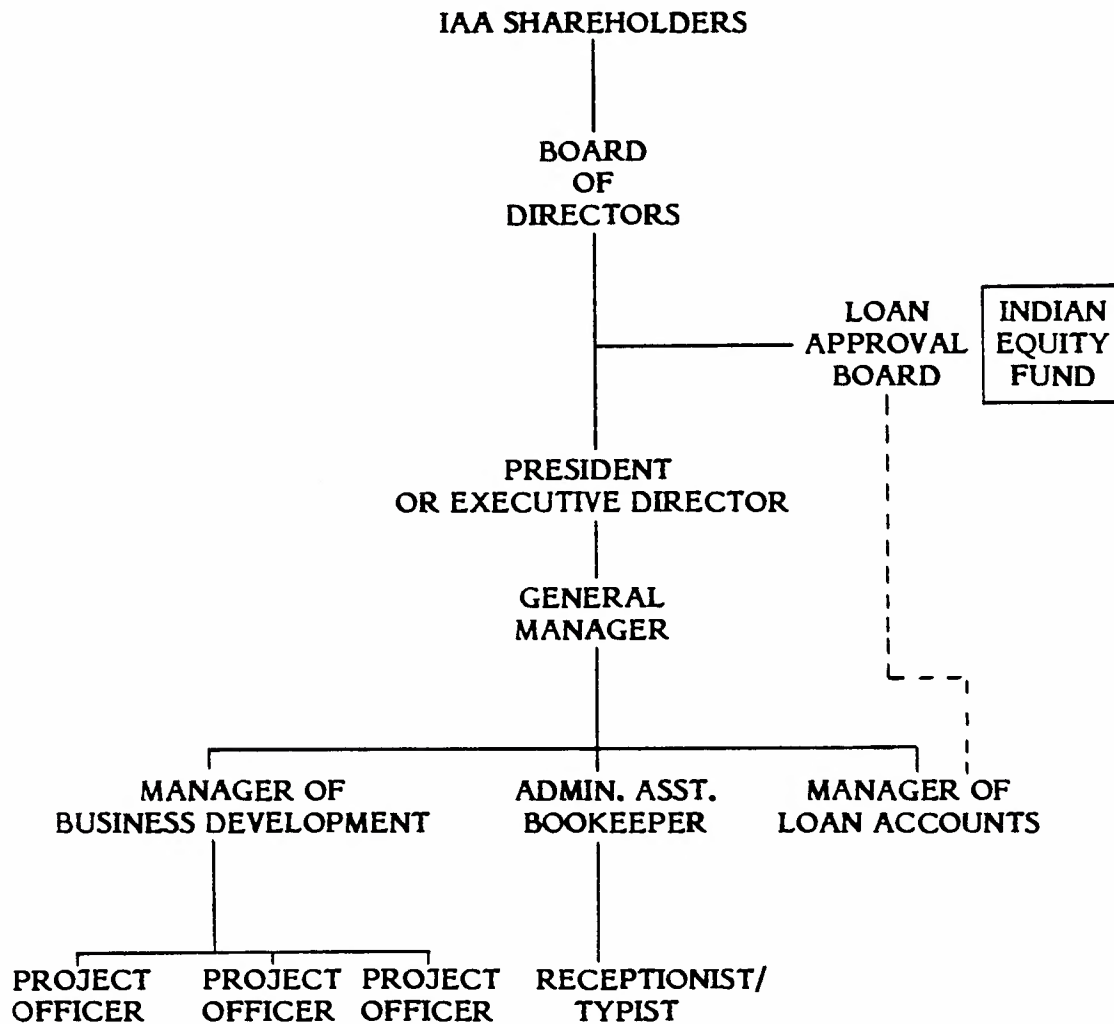
- | | |
|---|--|
| <ul style="list-style-type: none">• concurrent use of project manager as loan account counsellor• improved transfer of information between loan monitoring and business advisory functions• clearer public perception of a single effective agency• more focused attainment of common goals• greater vested interest in operational clients | <ul style="list-style-type: none">• potential conflict of interest in a collections situation --perception as a collections agency• potential loss of charitable status• additional load on field personnel• potential loss in objectivity in reviewing loans |
|---|--|

Efficiency

- | | |
|--|--|
| <ul style="list-style-type: none">• reduction of senior administrative costs• better use of a consistent computerized client data base• reduction of office overhead• minimized loan administrative burden• potential to balance budgets based on accumulated surplus• reduction of Board of Directors costs (single Board) | <ul style="list-style-type: none">• possible legal costs and lease buy-out costs |
|--|--|
-

Exhibit E.2

ORGANIZATIONAL STRUCTURE
MERGER
No Enhancement of Resources



Shareholders Participation and Awareness

The majority of clients interviewed were unaware of the ownership structure of IBDS and IEF. In addition, many of the interviewed leaders indicated that they were unaware of the role of the Indian Association of Alberta (IAA) as trustee. A common theme of the Indian leader comments was that both IBDS and IEF are not well enough known in the Indian communities.

It is evident that IAA has been essentially passive in its trustee role and there appears to be minimal participation of either the IAA or the Indian shareholders at large in the ongoing administrative and operational processes of the organizations. We believe that significant benefits could arise from more broadly based shareholder knowledge and participation in the institutions in the form of more grass-roots direction and support for the institutions, which would in turn add impetus to their growth and credibility.

This broader base of knowledge and participation could be achieved in a number of ways including the holding of an active open annual meeting, a more active IAA monitoring role, an increased emphasis on communications, the election rather than nomination/ratification of directors, or possibly the transfer of shareholder trust to Band councils.

The development of this broad base of support is an essential factor influencing the commitment of long-term funding from DIAND.

We therefore RECOMMEND that the Indian Association of Alberta, as trustees of the shares of IBDS and IEF, examine ways and means of broadening the base of shareholder knowledge of and participation in the institutions.

Proactive Business Opportunities Identification

Because of limited resources, the high priority previously given by IBDS to the identification of business development opportunities suitable for Indian enterprise has been subjugated to the provision of advisory services in reaction to client requests. Although IBDS states that it tried unsuccessfully to fulfill this role a few years ago in the oilsands area, it is the consultants' belief that substantial progress in the development of Indian businesses provincially could be achieved by:

- identifying opportunities and linking these with Indian businesses;
- coordinating IBDS's efforts with other agencies including regional development councils, Alberta Small Business, and the Department of Regional Industrial Expansion;
- liaison with major corporations and governments to promote the purchase of Indian business goods and services;
- tapping a likely pool of dedicated and experienced business people in the form of a voluntary Advisory Council. Such a Council would complement the liaison and opportunities identification functions.

Although the following recommendations are stated in terms of IBDS action, they are equally applicable to a merged corporation.

We therefore RECOMMEND that the IBDS Board consider implementation of a proactive stance with respect to business opportunities identification and that suitable incremental funds be put in place by DIAND to support this function.

As part of this proactive stance we **RECOMMEND** that IBDS pursue an active facilitating role to ensure that its clients are made aware of and avail themselves of opportunities for registry in corporate and/or government purchasing and advertisement lists. This implies that IBDS maintains active knowledge of the existence of and criteria for inclusion in such registries and lists.

In support of this stance, we also **RECOMMEND** that IBDS produce a monthly or quarterly newsletter highlighting Indian small business successes and opportunities as well as the services and activities of the corporation and other assistance agencies. The newsletter would also serve a valuable function in informing the Indian public of their ownership of the corporation.

Lastly, we **RECOMMEND** that the IBDS Board consider implementation of a voluntary Advisory Council of experienced business people (Indian and otherwise) to assist in identifying business opportunities and to provide general advice on strategies and actions for Indian business development. The Council should have regional representation and would require incremental funding from DIAND.

Implementation of these recommendations will require the provision of incremental resources, likely to be in the order of one person-year (\$30,000) with associated expenses for travel and newsletter production (perhaps \$15,000 to \$20,000) and an additional \$15,000 per annum for the Advisory Council.

Follow-up Services and Loan Monitoring

A significant proportion (about 50%) of the IBDS developmental clients interviewed indicated a dissatisfaction with the timeliness of response and the amount of field contact with IBDS project officers. It was also determined that although there is a high degree of satisfaction with IBDS services amongst operational clients, constraints on a project officer's time preclude the extent of operational client contact that is desirable. Community leaders who were interviewed also indicated a need for more follow-up services on-reserve. IEF also report that they have inadequate resources to actively monitor and counsel loan accounts.

Although the merger of IEF and IBDS would more efficiently and effectively use the project officers in the role of loan monitoring and account counselling, there is a need, given the increase in developmental client loads, for augmentation of project officer resources. There is also a need for clarification of policy on the terms and conditions under which services to operational clients would be provided.

We **RECOMMEND** that DIAND devolve business development person-years to the appropriate institutions to be used for regional field service positions to provide more active follow-up for both developmental and operational clients.

To improve operational client services, to respond effectively to client demand, and to allow for increased loan monitoring activity under merged operations it is likely that an additional two project officers will be required over the next two to five years.

We further **RECOMMEND** that:

- IBDS adopt a more formalized policy on the provision of follow-up services to operational clients stating the exact nature of services to be provided, and the terms and conditions under which a client would qualify for services.

- IBDS adopt a clear written policy on charges for operational client services involving a single structure of nominal fees, and
- IBDS attempt to move suitable operational clients over to other agencies providing business counselling services in Alberta (FBDB/CASE, Alberta Opportunity Company, Alberta Small Business).

Funding Levels and Mechanisms

The initiatives described in the preceding recommendations imply the following augmentation of resources for the joint functions of IBDS and IEF. The resource levels cited are approximate only and expressed in terms of 1985\$.

	<u>Approximate Annual Cost</u>
Proactive Business Identification	\$ 65,000
Follow-up Services and Loan Monitoring*	79,200
Training Co-ordinator**	<u>38,000</u>
	\$182,200

* added over next 2 to 5 years

** if role is determined in conjunction with CEIC and INAC

These resources would be offset in part by the \$84,000 potential saving identified earlier and would be added to a base budget for merged IBDS/IEF operations of approximately \$490,000 (1985\$) per annum.

We believe that a five-year funding commitment is essential to the orderly operation and planning of the institution or institutions.

With respect to a funding mechanism and accountability process, we **RECOMMEND** that:

- new funding arrangements with the institutions be of a five-year block funding nature, by program functional component (i.e. administration, management, operations) and not detailed line items.
- simple performance indicators representing the full activities of the institutions be adopted by mutual agreement between the institutions and the Department of Indian and Northern Affairs. Funding, however, should not be made contingent on attainment of Departmental targets but on evidence of broad based shareholder satisfaction with the operations of the institution and on reasonable evidence of responsible management.

Recognizing that the transfer of responsibility is evolutionary, we **RECOMMEND** that the Institutions continue to be required to produce and submit to the Department quarterly activity reports, an audited financial statement and a fully descriptive annual report.

We RECOMMEND that DIAND and the institutions reach agreement on a core set of services for which funding is provided and for which no fees (or agreed upon nominal fees) will be charged. Beyond this core set of services, the institutions would be free to provide incremental services on a fee-for-service basis which is acceptable to the shareholders.

E. ACTIVITIES AND PERFORMANCE

Summary data on the activities and finances of the institutions are provided in Exhibit E.3 and E.4.

IBDS - Activity and Financial Summary

- New project applications have more than doubled between 1981 and 1985 and approximately one in ten project ideas move through to funding.
- 102 new businesses have been funded between 1981 and 1985; two-thirds (68) of these businesses are still operating as of the end of 1985; approximately one-quarter (25) are classified as failed, operating-collection, and operating-3 month arrears.
- Administrative training was supported in 1981-83 by private sector funds; two-week training programs were provided in 1983/84 but subsequently dropped due to the availability of alternatives and excessive time consumed in preparation.
- Program funding from DIAND has been essentially constant (in current dollars) at \$325,000 per annum over the evaluation period, with the exception of a special grant of \$210,000 in 1981/82; expenses have exceeded direct DIAND funding in all years of the evaluation.
- Major initiatives of the corporation have included investigation and proposal for merger with IEF, development of training programs, and delivery of administrative consulting services to bands.
- In response to its deficit position, IBDS implemented a fee-for-service policy in 1983 for the provision of business development and band consulting services and in 1984/85 reduced expenses by about 13%.

IBDS - Performance Summary

- IBDS has developed and implemented policies, procedures and controls which provide effective monitoring of administrative, financial and program delivery functions. Internal control exists at a very high level.
- IBDS has been innovative and industrious in the development of administrative training programs. These programs have been very well received by participants. Further delivery of these programs is constrained by lack of direct funding and definition of an appropriate role for non-accredited introductory training.
- Project officers are working at capacity caseloads. Further growth in developmental clients caseloads will merit augmentation of project officer resources.
- Given available resources, IBDS has been reasonably effective in the development of new Indian businesses. Business failure rates are acceptably within bounds established for small businesses in general. IEF loans arrears rates for active businesses assisted by IBDS are comparable to industry norms for high risk loans but greater than arrears rates for IEF accounts not receiving IBDS assistance. Costs per unit job creation are comparable to those experienced in other native development programs in Western Canada.

- In general, the corporation is run in an efficient and cost-effective manner. Opportunities exist however for reduction in administrative costs particularly with respect to the president's honorarium, benefits package, and parking. Senior salaries are also well above provincial medians for similar positions.

Improvements in overall performance may be achieved by:

- reducing administrative costs
- providing better follow-up service
- increasing knowledge and awareness of the corporation's services and ownership among Alberta Indians
- increasing shareholders' participation and awareness
- adopting a proactive business development stance

These points are the subject of priority recommendations already presented.

With respect to the role of IBDS in training, **we RECOMMEND that representatives of DIAND (Employment and Training), CEIC and IBDS review the role that IBDS could play in providing non-accredited introductory training in business and public administration. If a gap in training exists, this role could be more fully developed in conjunction with Band representatives.** Delivery by IBDS of this function would require the addition of one staff position and additional space.

IEF - Activity and Financial Summary

- IEF has authorized approximately 170 loans since its inception, 95 of these in the calendar period 1981 to 1985. IEF loan activity declined from 1979 to 1982, likely as a result of the recession in Alberta over that period. Since 1982, the number and volume of loans has shown an upward trend.
- Over the evaluation period, approximately 65% of applications submitted have received loan authorization.
- From 1981 to 1985, IEF has participated in total project financing of \$6.815 million with an IEF loan component of \$1.002 million (14.7%).
- Significant revenues are generated by interest on undisbursed loan funds. Prior to 1984 this interest revenue accrued to an operating surplus fund. Since 1984 these revenues have been accrued to the Equity Fund leaving the Foundation in a deficit on operations.

IEF - Performance Summary

- IEF has been prudent in its management of the Equity Fund so as to sustain the Fund.
- At present, loan write-offs approximately match interest income on undisbursed funds leaving the capitalization fund stable. If write-offs could be reduced a larger proportion of the fund could be disbursed.
- The funding leverage attached to IEF loans is broadly based and effectively introducing clients to commercial lending.
- Loan monitoring and account counselling activities of IEF are constrained by a lack of field personnel. This deficiency would be most efficiently addressed by a merger of IBDS and IEF.
- There is an emerging need and demand to embark on larger business ventures on a true shareholding equity basis. This will require a

substantial change in the mandate and capital base of IEF which has a current participation limit of \$50,000 or 20%, whichever is lower.

- The Board of IEF has implemented new procedures consistent with a more stringent collection policy. Collections are improving.
- Loan write-offs are in the order of 30% of the total loan amounts disbursed (1978-85). Emphasis should be given to reduction of the loss rate. Amalgamation of field advisory (IBDS) and loan account (IEF) functions should provide more effective follow-up on accounts.
- The cost of program delivery per unit IEF loan amount is high primarily due to the small number and value of loans relative to the program infrastructure in place. Efficiencies can be achieved by merger with IBDS. In general, however, the Foundation is administered in a cost conscious manner.
- IEF has developed and implemented policies, procedures and controls which provide effective monitoring of administrative, financial and program delivery functions.
- The Board and management of IEF have been actively seeking the enhancement of the Foundation's capabilities through a proposal to the Native Economic Development Program. The proposal seeks \$10.0 million in capitalization for loan and equity investment in significant business ventures.

Improvements in overall performance may be achieved by:

- reduction in administrative costs
- improving loan counselling through the use of qualified credit officers
- increased emphasis on reduction of loan losses.

Each of these can be achieved by merging with IBDS and combining the business development and loan account functions.

Exhibit E.3
Summary of Activities

<u>IBDS</u>	<u>Fiscal Years Ending Oct. 15</u>					
	1981	1982	1983	1984	1985	Total
# of New Project Applications	119	189	207	248	272	1035
# of Projects Funded	13	24	20	26	19	102
# of Ongoing Operational Clients	24	43	46	36	37	37 (avg)
# of Trainees	1	3	9	20	1	34
# of Band Consulting Projects						
Number	0	0	0	10	13	23
Value ('000\$)	0	0	0	14.2	54.3	68.5

<u>IEF</u>	<u>Calendar Year</u>					
	1981	1982	1983	1984	1985	Total
# of Applications	28	13	21	36	49	147
# of Loans Authorized	20	11	14	22	28	95
Value of Loans Authorized ('000\$)	100.2	96.2	163.3	347.1	295.5	1,002.2
Average Value Authorized	5.0	8.7	11.7	15.8	10.6	10.4 (avg)
Total Project Financing ('000\$)	766.7	249.0	1,108.7	3,333.2	1,357.5	6,815.1

Exhibit E.4
Summary of Financial Data
('000\$)

<u>IBDS</u>	<u>For Fiscal Year Ending</u>				
	1981	1982	1983	1984	1985
Revenues					
DIAND Contribution	300.0	325.0	325.0	325.0	325.0
Fees				25.3	57.9
Interest	29.6	54.7	30.4	19.3	9.4
Other		210.0*			
	<u>329.6</u>	<u>589.7</u>	<u>355.4</u>	<u>369.6</u>	<u>392.3</u>
Expenses	386.5	437.7	439.9	442.7	384.3
Accumulated Surplus	98.5	250.5	165.9	92.8	100.8

* Federal Western Economic Initiatives Program

<u>IEF</u>					
Revenues					
DIAND Grant	100.0	152.5	0.0	100.0	103.0
Interest	139.5	221.9	162.0	3.9	4.1
Other					47.2
	<u>239.5</u>	<u>374.4</u>	<u>162.0</u>	<u>103.9</u>	<u>154.3</u>
Expenses	119.7	135.8	142.4	129.9	154.8
Accumulated Surplus	418.6	657.2	676.8	650.8	603.1

SECTION 1.0

1.0 INTRODUCTION

1.1 Background

The Indian Oil Sands Economic Development Corporation (IOSEDC) and the Indian Equity Foundation (IEF) were established following Treasury Board approval on December 9, 1976, Minute 745923. The two entities were formed in conjunction with a ten year agreement between the Indian Association of Alberta, the Department of Indian Affairs and Northern Development, and Syncrude Canada Ltd. IOSEDC was incorporated on September 22, 1976 as a non-profit organization while IEF was incorporated on November 1, 1976 as a registered charitable organization by a special Act of Parliament.

A funding schedule was established for a five year period ending in 1981 (Exhibit 1.1) and continued funding was available for an additional five years, subject to the consideration and approval of the Minister of Indian Affairs and Northern Development

"... if he is satisfied as the success of the Corporation and Foundation and such funds are essential to the further successful work of the Corporation and Foundation."

Based on an evaluation completed in October, 1980, the Assistant Deputy Minister, Indian and Inuit Affairs made a funding commitment for the next five years.

"... I am satisfied as to the success of these two institutions through the first five years of their existence and hereby approve the extension of funding for years 6 to 10 of the Syncrude Agreement. This authority does not reference specific amounts of money but merely approves the continued resourcing of these two institutions by the Alberta Region."

The actual funding received since 1976 is shown in Exhibit 1.1. In 1983, IOSEDC changed its name to IBDS Indian Business Development

Services Ltd. to better reflect the provincial scope of its activities. Funding to these organizations, to the end of fiscal year 1984-85, totals \$3,089,000 for IBDS and \$2,755,500 for IEF.

As the two organizations are approaching the end of their 10 year funding agreement with the Department of Indian Affairs and Northern Development (DIAND), the Alberta Regional Office of DIAND in conjunction with the Evaluation Directorate has commissioned a program evaluation of the two organizations and the monitoring role of the Indian Association of Alberta (IAA) in respect to these entities. The period covered by the evaluation includes fiscal years 1980-81 to 1984-85 whenever possible.

1.2 Terms of Reference

The Terms of Reference for the evaluation are attached as Annex B to this report. In summary, the Terms of Reference state that:

- o The evaluation shall follow the approach discribed in the "Principles for the Evaluation of Programs" published by the Comptroller General, Treasury Board of Canada.
- o The evaluation shall encompass the period of time from the last evaluation (October 1980) to October 15, 1984 for IEF and October 31, 1984 for IBDS.
- o The evaluation shall include a profile of each organization prepared in accordance with guidelines of the Comptroller General.
- o The evaluation shall address specific issues stated in the Terms of Reference relating to Mandate and Objectives, Structure, Efficiency and Effectiveness, and Alternatives.

- o Recommendations will be made in accordance with Comptroller General guidelines and shall occur on:
 - Continuation of the Corporation (IBDS) and Foundation (IEF).
 - Delivery mechanism alternatives.
 - Advantages and disadvantages of merger.
 - Mechanisms of merger, if warranted.
 - Adequacy of existing resources and future resource requirements.

The Terms of Reference further stipulate that an extensive interview program be conducted to provide a broad perspective on the organizations.

The activities of the evaluations have been directed to fulfill all specific items in the Terms of Reference.

1.3 Organization of the Report

The methodology adopted in carrying out the evaluation is described in Section 2.0 which follows. The evaluation process is based on the evaluation plan which is presented in Section 2.1. In Section 3.0 an organizational profile a description of impacts and effects and a general assessment of performance are presented for IBDS. Similar information for IEF is provided in Section 4.0.

Evaluation questions specified in the Terms of Reference and formulated within the evaluation plan are addressed in Section 5.0. Our findings and recommendations relative to these questions are itemized in this section. The joint activities and relations of IBDS and IEF are more closely examined in this section.

In Section 6.0 we discuss some key issues related to the present status of the organizations and our findings in this study. Future

directions for delivery of business development and financial services to Indian people in Alberta are considered in Section 7.0.

The report is structured in two volumes. Volume I (Main Report) contains all material relevant to methods, results, conclusions and recommendations. Volume II (Technical Annex) presents the results of the interview program and the Terms of Reference.

Drawing from Sections 5.0 and 6.0 we have assembled an Executive Summary which is presented at the beginning of this report.

SECTION 2.0

2.0 EVALUATION METHODOLOGY

2.1 Approach

The evaluation was conducted in accordance with the following series of tasks:

- a) Initial discussions with management of IBDS, IEF and representatives of the Department of Indian and Northern Affairs were held to provide a full briefing on the history and activities of the organizations as well as on those issues identified in the Terms of Reference.
- b) Preparation of an organizational profile for each of IBDS and IEF, summarizing the history, mandate, objectives, organizational structure, activities and revenues and expenditures for these institutions with emphasis on the evaluation period.
- c) Preparation of an evaluation plan based on the specific requirements of the Terms of Reference and on relevant elaboration, within the bounds of the Terms of Reference, as obtained in the above mentioned discussions.

The evaluation plan set forth questions, indicators, methods of analysis and information sources as a basic framework for conducting the evaluation.

The evaluation plan together with a sampling process were then presented to the Steering Committee for approval.

- d) Collection of information necessary to answer the questions posited in the evaluation plan. The primary information collection activities included an extensive interview program and an analysis of relevant documents and internal files.

- e) Documentation of the impacts and effects resulting from activities of the two organizations.
- f) Assessment of the performance of the two organizations based on an objective and impartial analysis of interview results, documented activities, impacts and effects, and expenditure patterns. Performance has been assessed in terms of effectiveness (i.e. objectives achievement), efficiency (i.e. cost-effectiveness) and control.
- g) Analysis of issues. A number of policy, administrative and operational issues have been encapsulated in questions posed. These issues have been specifically addressed in this study from the perspective of their relevance to the effective and efficient fulfillment of the needs of Alberta Indian people for business development services and specialized financial assistance.
- h) Documentation of findings resulting from the assessment of performance and analysis of issues.
- i) Identification and evaluation of alternatives by which performance may be improved and/or issues resolved.
- j) Formulation, documentation and review of recommendations.

In carrying out these tasks, it is important to note that the evaluated organizations have been assessed from both internal and external perspectives. That is to say that we have attempted to obtain views of the organization from within the organization (i.e. from management and staff) as well as from outside the organization (i.e. from clients and interacting agencies).

It is also important to note that we have used both quantitative and qualitative information in carrying out the evaluation. By necessity, much of the information collected in interviews is of a qualitative nature. The limitations of such information have been recognized.

2.2 External Interviews

The basic purpose of the field interviews was to provide some understanding of the effectiveness of IBDS and IEF from the perspective of the users or recipients of the services. Do the users or potential users understand what services are available? To the extent they are knowledgeable about the services? Are they satisfied with the services provided? Has the technical and financial assistance provided helped the Indian people in Alberta create viable, self-sustaining businesses? From their perspective, how can the services provided be improved?

The Terms of Reference defined several respondent groups that could provide useful insights into the effectiveness of the organizations. These respondent groups together with targetted and completed interviews were:

<u>Respondent Group</u>	<u>Target</u>	<u>Completed</u>
Band Chiefs and Community Leaders	15	21
IEF Clients		
- with IBDS Assistance	15	14
- without IBDS Assistance	10	7
IBDS Developmental Clients	<u>20</u>	<u>17</u>
TOTAL	60	59

In addition 2 economic development officers for the regional councils, 4 financial institutions and 6 people who took business training courses provided by IBDS were also interviewed.

These interviews complemented the discussions held with the management, staff and Directors of the two organizations, and IAA and DIAND representatives.

To be fair and most informative, the sample of respondents had to be a representative cross-section of clients by project type, geographic location and services provided.

The first step was to develop a representative sample of Bands by Treaty area, accessibility, number of clients and resource base. The initial sample of 18 Bands was extended to include the Dene Tha, Boyer Lake, Fort Chipewyan and Sunchild Bands upon discussion with the Steering Committee. Exhibit 2.1 shows the location of the Bands together with the number of interviews completed by Band.

The Chiefs (22), IEF clients with loans outstanding (48), and the 1984-85 IBDS developmental clients whose ideas had reached the proposal preparation stage (31) in the Bands chosen were sent letters introducing the study and requesting their participation. The number of letters sent exceeded the targetted number of interviews because it was anticipated that many clients would not be available when the interviewer visited the Band. For example IBDS had closed half of the accounts of the developmental clients selected because of inactivity.

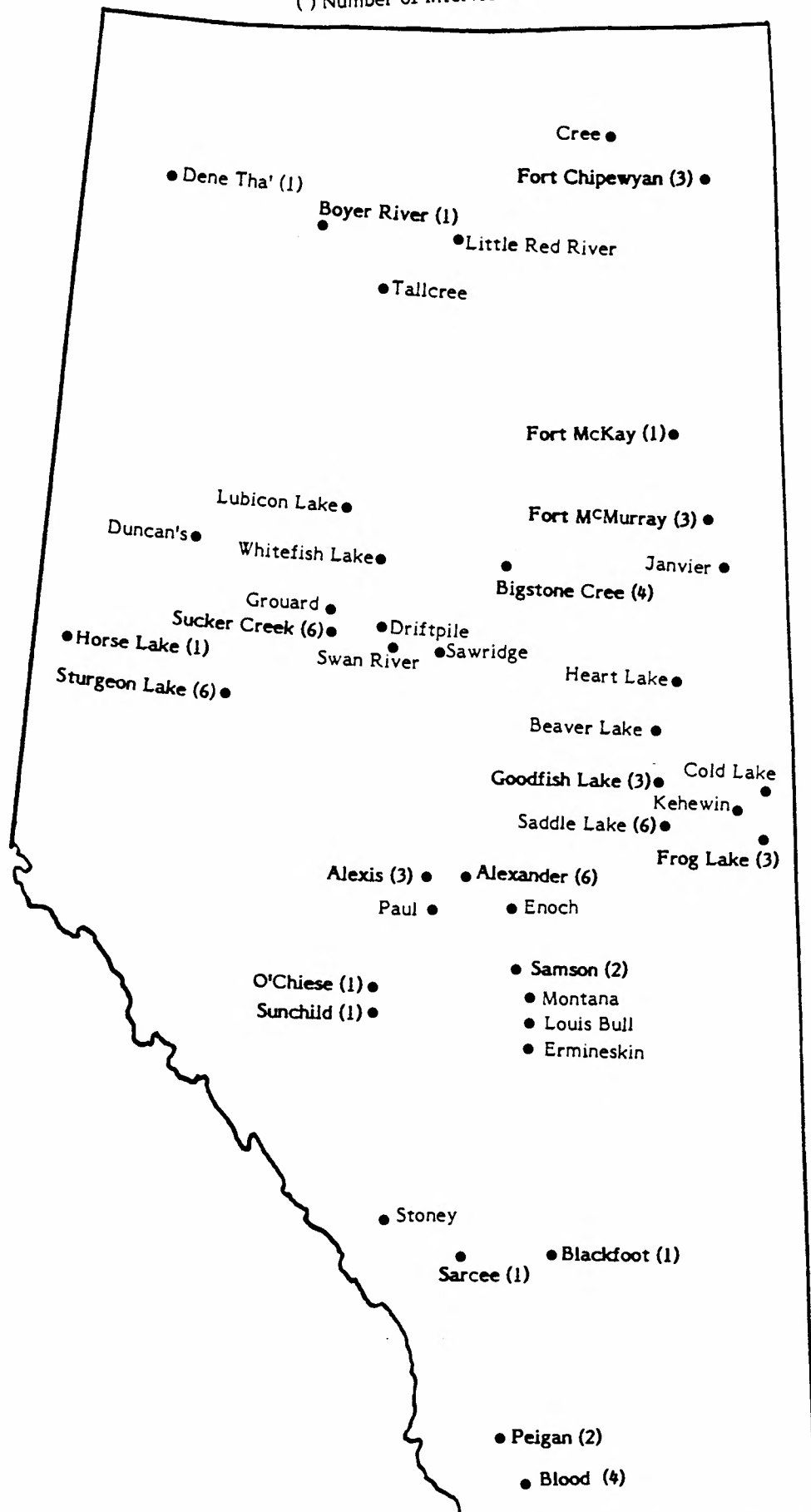
Attempts were made to contact each potential interviewee and establish a time for a personal interview. In a few instances, a personal interview was not possible and the interview was conducted by telephone.

Interview guides were prepared for each respondent type based on the Terms of Reference, the Treasury Board's "Principles for the Evaluation of Programs", and the interview guides used in the recent evaluation of the Indian Economic Development Fund conducted by DPA for DIAND.

The guides were designed for the evaluation of IBDS and IEF as well as the concurrent evaluation of the Alberta Indian Agricultural Development Corporation (AIADC). This caused some problems because many interviewees were unaware of the differences between the three

COMPLETED INTERVIEWS BY BAND

() Number of Interviews



organizations while in other cases the interviewer did not distinguish between the three in the written responses.

Because of the diversity of the client base and the variation in the timing and type of assistance, the questions on the guide were designed to be open-ended. Background information on the history of the business and the experience and training of the client was obtained along with evaluative comments on IBDS and IEF. Financial information was requested on each business but very little quantitative information was received. In most cases this was because the client did not keep detailed financial records.

To compensate for this, the interviewer was to assess the management capability, market potential, market penetration and adequacy of capitalization for each on-going enterprise.

To verify the responses obtained and to obtain more specific information on IBDS and IEF, attempts were made to recontact all joint IEF/IBDS clients. The responses obtained in the seven re-interviews that were completed were consistent with the first set of responses and no discrepancies were identified.

The results of the interviews with the Band leaders, IEF clients and IBDS developmental clients are presented in Annex A (Volume II).

2.3 Constraints to Approach and Methodology

The results of the evaluation are subject to many of the same constraints and limitations as other studies based on survey data. The specific factors most important to these evaluations are briefly discussed in this sub-section and are as follows:

- o The survey vehicle, i.e. the set of 5 interview guides, generally operated in a satisfactory manner. However, as with any survey, there is the danger that questions will be interpreted

differently by the different groups of respondents interviewed in the field survey.

- o Most respondents co-operated with the interviewers. However, because this was a government sponsored evaluation, some may have been somewhat guarded and inhibited in providing answers, despite the guarantees that all responses would be aggregated and individual persons would not be identified.
- o Detailed financial information on current operations was collected from approximately one-quarter of the sampled projects. Some respondents were reluctant to provide this information (and the interviewers were not in a legal position to press them for this information) but more often financial records were not maintained in any formalized manner that would enable collection for review and analysis.
- o With respect to the sampled projects, the characteristics of the respondents varied greatly in terms of such factors as the capacity to respond to the dynamics of on-site interviews and the ability to relate to the more complex evaluation questions. This is to be expected in any survey situation, but the personal differences are probably greater in this respondent group than is the norm for small business entrepreneurs in general. The result is considerable variation in the quality and quantity of information received from respondents.
- o Knowledge of the program in terms of its objectives and content varied greatly among the interviewees and was generally lower in the more remote locations.
- o Bankers, accountants and other potential respondents were at times not available during the interviewer's visit to the community, or indeed were often not aware of IBDS, IEF or the projects concerned even where contact was made.

- o Within the Indian business community, most interviews were with business clients of the program who were successful in obtaining funding from IEF or had received proposal preparation help from IBDS. Different perceptions may have been held by business people whose applications had been rejected versus business people who had never applied for assistance. These groups were not interviewed. Equally, some of the failed business entrepreneurs were not available and their views on IBDS or IEF could not be included.

Most of the data and survey limitations were anticipated when the evaluation design was being prepared and the Evaluation Plan includes a number of features designed to mitigate their effects. These include: standardized interview guides; training of interviewers; monitoring of completed questionnaires; conducting interviews with various respondent groups, and analysis of all available written documentation in order to facilitate comparisons between data sources. While the data base has some gaps, the information collected through the field survey is viewed as satisfactory to allow the study team to properly address the evaluation issues described in the Terms of Reference.

Much of the information collected through the field survey was qualitative in nature. Important gaps exist in the quantitative data base, especially related to the financial performance of assisted projects. Because of these constraints, it was not possible to apply more sophisticated statistical and econometric techniques to the data base. Statistical analysis was limited to the frequency distributions and the cross-tabulations on selected variables (Annex A).

Notwithstanding the constraints to the approach and methodology noted above, the study team found many examples of converging lines of evidence among the data sources. For example, entrepreneurs whose formal business records were non-existent or incomplete, often provided quite good verbal summaries of the financial status of their respective businesses. These interviews were cross-checked against

the study team's findings from IBDS and IEF staff and community leaders; (e.g. history of loan repayment). The collective result of exploring multiple lines of evidence drawn from the interviews has been to provide the study team with an effective resource with which to assess the validity of the quantitative analysis and to make balanced judgements respecting study findings.

SECTION 3.0

3.0 IBDS INDIAN BUSINESS DEVELOPMENT SERVICES LTD.

3.1 Organizational Profile

3.1.1 History

Prior to Evaluation Period

IBDS Indian Business Development Services Ltd. has its origins as the Indian Oil Sands Economic Development Corporation (IOSEDC) which was established under authority of "Attachment A" to an agreement signed on July 3, 1976 between the Minister of Indian Affairs and Northern Development, Syncrude Canada Ltd. and the Indian Association of Alberta. This agreement, known as the "Syncrude Agreement" was prompted by the construction of the Syncrude tar sands crude extraction plant. The agreement set forth statements of intent regarding the recruitment, hiring, and training of Alberta Treaty Indians for the project. In addition, the agreement, under "Attachment A", Article 1.1 stated:

"In order to facilitate the development of Indian enterprises and businesses serving the oil sands area, the Minister in consultation with the Association shall cause to be incorporated Indian Oil Sands Economic Development Corporation (herein called the "Corporation") at the expense of the Department."

The original intent therefore of IOSEDC was to encourage and assist Indian businesses in tendering on bidding for contracts to supply goods or services to Syncrude and to encourage and assist the development of Indian businesses to the point at which they could compete competitively for contracts.

The IOSEDC was incorporated on September 22, 1976 as a non-profit corporation under The Companies' Act of Alberta. As noted in the previous evaluation the Corporation became

functional in 1977 and in subsequent years met with limited success in the creation of small business opportunities related to the Syncrude project due to the advanced state of construction, closed prime contracts, and the establishment of union sub-contract arrangements. In response to these limited opportunities in the oil sands area and to an increasing number of requests for assistance from outside the area, the Corporation, along with the Indian Association of Alberta and the Department of Indian and Northern Affairs, agreed to expand the organization's activities to cover the entire province of Alberta. This expansion in mandate was ratified in January of 1979. As of 1980, the Corporation had nine staff including four project managers, one of which was a field officer in southern Alberta (Treaty 7). All other personnel worked out of an Edmonton head office.

Between 1977 and 1980 the Corporation responded to 179 applications for assistance resulting in the funding and establishment of 25 small business operations. As of September 15, 1980 it was reported that 5 of these businesses were no longer operational. New client activity increased significantly from 1979 (40 clients) to 1980 (96 clients).

In October of 1980 an evaluation of IOSEDC and the Indian Equity Foundation was submitted by PM Associates Ltd. The evaluation report recommended that both entities be continued for an additional five years and that a five year mandate be provided in lieu of annual contributions.

The report itemized future anticipated funding requirements growing from \$390,200 in 1980 to \$726,500 in 1986. These requirements were based on an increase from nine to eleven full-time positions and included an 8% allowance for inflation on all costs.

Within the Evaluation Period

As noted previously, allocation of funds to IOSEDC beyond October 1981 required the approval of the Minister of Indian Affairs and Northern Development. Following completion and submission of the 1980 evaluation report, IOSEDC and the Alberta Region office of DIAND participated in the preparation of a Treasury Board submission which was submitted in July 1981 under signature of the Acting Regional Director General, Alberta Region for consideration by the Director of the Economic and Employment Development Branch in Ottawa. This submission sought funding of \$3,133,700 over five years and replicated the funding requirements schedule itemized in the evaluation report. These requirements were, as noted, based on the addition of two full-time staff and 8% per annum escalation in costs. The additional staff included a project secretary and project manager. The Treasury Board submission was supported by the Indian Association of Alberta. The submission states that the amount requested "is the minimum gross amount required to support the Program for an additional five years". In addition, the submission makes reference to "the need for the Corporation to directly provide a Small Business Development Officer Training Program for Band Economic Development Officers". This program was supported by resolution of the shareholders and was projected to be financed by private sector contributions.

In the fiscal year, 1980/81, Foothills Pipelines (Yukon) Ltd. gave IOSEDC a grant of \$100,000 to initiate a small business management training program with the intention of having trainees retained by the Bands as business development officers. Activity under this program is described in Section 3.1.4.

In October of 1981, authority for extension of funding for years 6 to 10 of the Syncrude Agreement was provided by the Assistant Deputy Minister of Indian and Inuit Affairs. The

letter states that the authority "does not reference specific amounts of money but merely approves the continued resourcing of these two institutions by the Alberta Region". From this point in time forward, funding to both IEF and IOSEDC was drawn from the Alberta Region's "A" Budget. \$325,000 per year was budgeted to IBDS through 1986, subject to availability of funds and annual review. With respect to the Treasury Board Submission, all new funding was placed on hold in 1982 pending government review of economic development policy. In January 1982 a special contribution of \$210,000 was received from the federal Western Economic Development Initiative Program. Most of this contribution was carried over as accumulated surplus. In August of 1983 the Corporation changed its name to IBDS Indian Business Development Services Ltd. to better reflect its provincial mandate. In August of 1983 IOSEDC was informed that subsequent funding under the Syncrude Agreement was to come from the Alberta Region, two years after the decision was actually implemented.

A Fort McMurray office was opened in December 1981 in response to requests from the Athabasca Tribal Council. The office remained open until March 1983 when it was closed due to insufficient demand for services. Prior to 1983/84, there was also an office at Standoff. However, because of staff turnover and the difficulty of providing assistance from the head office, this office was closed and business activities consolidated to Edmonton in 1983/84.

Over the evaluation period the Board of Directors of IBDS has reviewed and encouraged a number of initiatives whereby the capabilities of the corporation would be enhanced. These include:

- 1) An analysis of merger with IEF. Merger was recommended by IBDS to the shareholders and IEF Board in 1984. IBDS reports that the shareholders accepted merger as a good

idea but that a decision on the proposal of merger was not received from IEF. No further action was taken.

- 2) A proposal was submitted to DIAND, CEIC, the Alberta Government and private sector firms to fund the continuation of the training program. Adequate funding was not received.
- 3) A submission was made by the manager of IBDS to DIAND for additional funding and/or transfer of service delivery from DIAND to IBDS. No funds, were forthcoming in part, due to the Department's concern with the IBDS deficit.
- 4) A review of costs was carried out and reductions were agreed upon in 1984/85.
- 5) Consideration was given at a preliminary working level to merger with BANAC, the provision of services to NEDP and the establishment of a financial institution with financial support from Bands. NEDP indicated that there were no immediate requirement for IBDS services but that the corporation could compete for such requirements should they arise. The concept of a financial institution jointly funded by NEDP and Bands were left idle due to lack of band funding.

In December of 1983 the Board of IBDS approved implementation of fees for service and expansion of the Corporation's activities to include contract Band consulting. This action was taken in response to projection of sustained deficits at the \$325,000 annual funding from DIAND. The corporation states in a historical review that:

"The projections showed that if the company continued to operate at its present level it would be broke by 1985. Given the continued increase in demand and its desire to

continue to provide services, IBDS considered four alternatives:

1. Request additional funds from Ottawa.
2. Continue to operate at the present level and hope that Ottawa or the Alberta Region would bail out the company.
3. Cut back on services and expenses in an effort to break even.
4. Look for ways to generate income and continue services without cutbacks.

The Board and Shareholders chose the last option and approved a Fee for Service and expansion into consulting."

In 1983/84 the Corporation actively sought financial support from government and industry to continue its business development officer training program. Adequate support was not obtained so the program was terminated. The Corporation henceforth supplied specialized training as part of its fee-for-service consulting services.

In 1984/85 the Corporation offered four distinct categories of services to Treaty Indians:

1. Small Business Development Assistance
2. Management Training (1 and 2 week courses)
3. Management Consulting Services
4. Band Administrative Services

Also in 1984/85 the Corporation reduced expenses by over \$58,000 from the previous year and generated over \$57,000 in consulting revenue resulting in the first surplus in five years.

The number of applications for small business development assistance rose steadily from 119 in 1980/81 to 272 in 1984/85.

More detailed profiles of the activities, revenues and expenditures of IBDS are presented in Sections 3.1.4 and 3.1.5 which follow.

3.1.2 Mandate and Objectives

The mandate of IBDS is to facilitate the development of non-agricultural Treaty Indian enterprises and businesses in Alberta. Its eight objectives from its initial Articles of Incorporation (as amended) are:

- 1) to operate exclusively as a non-profit corporation, to administer and employ its property, assets and rights for the sole purposes of promoting or aiding in the promotion and development of Indian-owned enterprises and businesses;
- 2) to identify, enumerate, evaluate, and characterize the economic development opportunities which are now available or will be available in the Province of Alberta (originally the oil sands area);
- 3) to promote the development of new and existing Indian businesses, and to identify, evaluate, characterize and enumerate existing Indian businesses;
- 4) to act as management consultants, industrial consultants, advisors and consultants in the operation of Indian businesses, operations and undertakings and without limiting the generality of the foregoing, to furnish advice and services, or act as co-ordinator, with respect to the organization, reorganization and management of businesses;

and to advise and devise with respect to businesses, systems as to sales and administrative expenses, budgets, accounting and cost methods, clerical and factory labour, overhead costs, inventories and other cost elements;

- 5) to communicate and advise Indians either as individuals or corporations, as to business opportunities and to assist, encourage and co-ordinate in the education and training of Indians with respect to the employment and business opportunities;
- 6) to provide financial, consulting, lending, technical and other assistance to businesses which have commenced activity and to provide on-going operational monitoring and assistance;
- 7) to engage, co-ordinate and make provisions for accounting, architectural, engineering and legal services to Indians and Indian businesses which have commenced operation or are to commence proposed operation;
- 8) to provide or assist in the preparation of feasibility assessment and analysis, proposal preparations and any other assistance necessary in order to obtain grants, contributions and loans for Indians and Indian businesses from Indian Development Foundations, Chartered Banks, Trust Companies, Credit Unions and other sources of whatever nature and kind including any Federal or Provincial Department or Agency.

The focus of the Corporation has been on the provision of business development services as described in objective eight. The Corporation has felt restricted with respect to objective seven due to a perceived conflict of interest.

The activities of the Corporation in pursuit of these objectives are reviewed in Section 3.1.4 which follows. Our assessment of the degree to which these objectives have been attained, within the context of constraints faced by the Corporation, is presented in Section 3.3. The ongoing relevance and importance of the mandate and objectives relative to need is examined in Section 6.1.

3.1.3 Organizational Structure

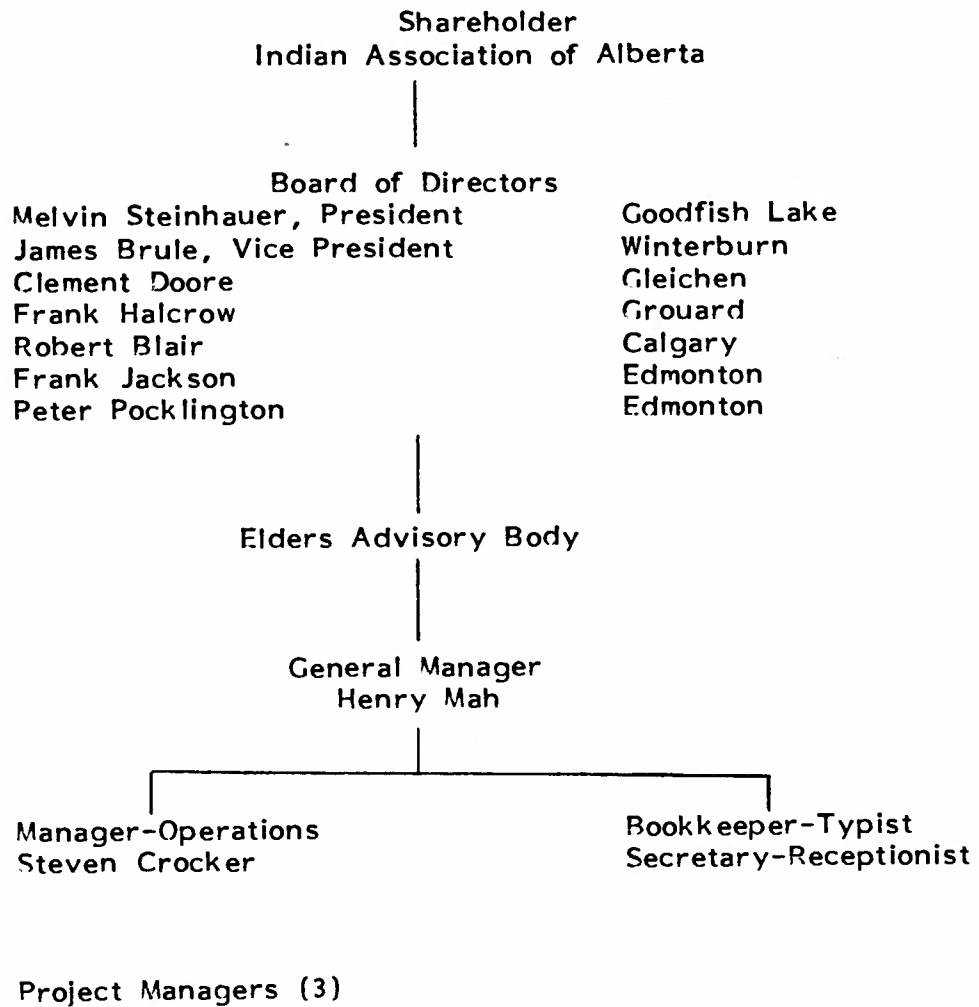
Exhibit 3.1 gives the current organizational structure for IBDS. The shares of IBDS are held in trust for all Treaty Indians in Alberta by the Indian Association of Alberta. Of the 100 IBDS shares issued, 96 are held by IAA and four by individuals. The IAA performs a monitoring role as to the direction and objectives of the organization and IBDS submits audited financial statements and progress reports to the IAA annually.

The Articles of Incorporation require that the Board be made up for four Treaty Indians, two private sector representatives, and one government member. The Board holds regular meetings during the year reviewing the firm's activities and financial status.

Mr. Steinhauer, a member of the Goodfish Lake Band, was elected as Director in October 1976, and has been President since October 1978. He is Manpower Coordinator with the Band Administration. Mr. Brule, a former Chief of the Enoch Band, was elected in 1980 and serves as the Vice-President. He is a Band Councillor and active member of his community. Mr. Doore represents the Blackfoot Band and joined the Board in 1984. He is Division Manager for Economic Development, Agriculture and Natural Resources for the Blackfoot Tribal Administration and is the current President of the Alberta Indian Agricultural Development Corporation. Mr. Halcrow is Chief of the Grouard

Exhibit 3.1

Organizational Structure - IBDS



Band as well as Chairman of the Board at the Kapown Centre in High Prairie, a drug and alcohol rehabilitation centre. He was elected to the Board in 1981.

Mr. Blair and Mr. Pocklington are the two industry members. Mr. Blair, Chief Executive Officer of Nova, An Alberta Corporation has been a Director since inception and Mr. Pocklington, President of Pocklington Financial Corporation, joined the Board in 1982.

Mr. Jackman, Regional Director, Alberta, for the Department of Regional Industrial Expansion, is the government representative and was appointed to the Board in 1984.

Initially, the Corporation had an Elders Advisory Board but this is no longer active. The Elders did not fully understand their role, expecting to be more involved in decisions of the Corporation. Also, extensive time was required to inform the Elders on the issues at hand. The Board eventually decided to drop the Elders Advisory Board as an active committee but to keep the structure in place should a need arise for it in the future.

3.1.4 Activities

Over the period of the evaluation, IBDS has been active in providing the following categories of services:

1. Small Business Development Assistance
2. Management Training
3. Management Consulting to Bands
4. Band Administrative Services

The purpose of this section is to briefly describe the nature of these services, how they have been delivered, who has been receiving them and the levels of service which have been provided over the evaluation period. More in-depth analysis of service delivery is provided in Section 3.2.

In practical terms the Corporation's activities are divided into services to individuals (generally small business development clients) and services to bands (these have become more prevalent since the policy decision to serve this market was made in late 1983). Services to bands have included a range of feasibility studies, accounting and administrative consulting services.

Exhibit 3.2 summarizes the activities of IBDS using a number of measures. The following paragraphs expand on this table.

Small Business Development Assistance

The primary focus of the Corporation has been on the provision of small business development assistance services. This focus is consistent with the original intent of the firm.

While the Corporation does not actively market its small business development services, it does distribute promotional material and introduces its services at various Band functions so that people are aware of the service should they need it. Several potential clients are also directed to IBDS by DIAND. The primary reason for this "reactive" strategy is that IBDS believes that client initiative and commitment are critical to the success of any project.

The Corporation has a five-step program to assist clients to become operational that encourages the client to take as much responsibility as possible.

Exhibit 3.2

IBDS: Summary of Activities

Activity Measure	Fiscal Years*									
	1980/81	1981/82	1982/83		1983/84		1984/85			
1. Total No. of New Project Applications in Year	119	189	207		248		272			
increase: no. (%)			18 (9.5%)		41 (19.8%)		24 (9.7%)			
							70 (58.8%)			
2. No. by Maximum Stage Reached by End-of-Year										
I		53 28%	56 27%		93 38%		117 43%			
II		66 35%	76 37%		102 41%		97 36%			
III	n.a.	22 12%	40 19%		25 10%		38 14%			
IV		16 8%	14 7%		10 4%		7 3%			
V		32 17%	21 10%		18 7%		13 5%			
Total		189 100%	207 100%		248 100%		272 100%			
3. No. by Treaty Area										
Treaty 6		55 29%	51 25%		69 28%		90 33%			
Treaty 7		42 22%	43 21%		62 25%		60 22%			
Treaty 8		80 42%	100 48%		104 42%		101 37%			
Other/Out-of-Province		12 6%	13 6%		13 5%		21 8%			
Total		189 100%	207 100%		248 100%		272 100%			
4. Number of Projects Funded (Businesses Started)	13	24	20		26		19			
5. No. of On-going Operational Clients	24	43	46		36		37			
6. No. of Trainees	1	3	9		20		1			
7. Band Consulting										
No. of Projects	0	0	0		10		13			
Value of Projects	0	0	0		\$14,225		\$54,310			
8. Personnel										
Operations	5	5	4		4		4			
Administration	4	4	3.5		3		3			

* commencing October 16.

Stage I	Initial Contact	<ul style="list-style-type: none"> - initial review of business concept - completion of application form - treaty status verification
II	Preliminary Evaluation	<ul style="list-style-type: none"> - assign informational requirements - preliminary assessment of viability
III	Developmental	<ul style="list-style-type: none"> - work with client to develop business proposal - review by Operations and General Managers
IV	Financial	<ul style="list-style-type: none"> - presentation of proposal to lenders - modification if necessary
V	Operational	<ul style="list-style-type: none"> - assist in initiating the business

Small business development services are presently delivered by three project managers based in Edmonton and working under the supervision of the Manager of Operations. Prior to 1983/84 there was an additional project manager working out of an office on the Blood Reserve and an office in Fort McMurray which was active between December 1981 and March 1983. The project managers at present are spending slightly under two days per week in the field.

IBDS reported that, in 1985, travel accounted for between 23% and 31% of all project manager workdays, depending on the individual. Although project managers do keep travel records, they do not submit overall activity time sheets. It has therefore not been possible to carry out a detailed analysis of time allocations. More recently compiled monthly reports indicate that project managers are visiting from four to eight communities each per month.

It is evident that most of the initial new client contact is made as a result of telephone enquiries from individuals with business concepts. Each project manager is assigned responsibility for a group of reserves and in 1984/85 maintained a caseload of approximately twenty-five to thirty developmental clients and eight to ten operational clients at any one time. While in the field the project managers are expected to establish and maintain contacts with Band representatives and DIAND offices in addition to carrying out client visits.

Exhibit 3.2 demonstrates the following points in relation to IBDS activity in delivering small business development assistance:

- o Over the period of the evaluation the number of new project applications received and handled annually has steadily increased from 119 (1980/81) to 272 (1984/85), a factor of 2.3 times, with an average annual increase of 23%.
- o 102 small business projects were successfully funded and started over the evaluation period, averaging about twenty per year.
- o The number and proportion of clients reaching stages IV and V within a year declined consistently over the study period. Conversely, increasing numbers and proportions of clients progressed no further than Stage II within a year.
- o Treaty 8 clients have accounted for between 37% and 48% of all new project applications. Historically, clients from Treaty 8 have accounted for about 40% of all clients.

- o From thirty-five to forty-five operational businesses were being retained from year to year as open files by IBDS prior to 1984/85. In that year a number of inactive files (i.e. those with minimal client contact) were closed. Reasons for closure are discussed later in this report.

Exhibit 3.3 presents a summary by industry of small business assistance applications received by IBDS in 1982/83 and 1984/85. The general distribution of applications by sector indicates a predominance of activity in the transportation (22%) general contracting (23%), automotive (11%) and food (10%) sectors. Exhibit 3.4 presents a summary of those businesses which have been started with IBDS assistance since 1976. A comparison of the proportion by industry of business concepts proposed versus the proportion by industry which have progressed through to the operational stage indicates a higher likelihood of start-up in the transportation and retail sectors and a lower likelihood of start-up in the automotive, food and service sectors:

Exhibit 3.3

IBDS: Summary of Project Applications by Industry (1982/83) and (1984/85)

	1982/83	1984/85		1982/83	1984/85
TRANSPORTATION:			RETAIL STORES:		
Trucking	31	27	Clothing	3	4
Busing	15	12	Lumber supplies	0	2
Taxi	3	3	Electric appliances	1	1
Courier	1	2	Merchandise	0	4
Ambulance	1	1	Cars	0	1
TOTAL	51	45	Other	1	1
			TOTAL	5	13
GENERAL CONTRACTING:			MANUFACTURING:		
Heavy Equipment	20	15	Concrete	0	1
House Construction	13	7	Teepees	0	1
Trades	7	9	Sawmill	2	0
Sub-contracting	5	5	Upholstery	1	0
Water well drilling/rigs	3	3	Heater maintenance	1	0
Road Construction	0	3	Canoe factory	1	0
Tile Cleaning	1	0	Drapery	1	0
Sign Painting	1	0	TOTAL	6	2
Oilfield servicing	1	7			
TOTAL	51	49			
AUTOMOTIVE:			EDUCATIONAL:		
Gas bar/auto repair	12	26	Modelling school	2	0
Car wash	2	1	Museum	1	0
Tire shop	1	0	Training school	1	1
Auto parts	1	3	TOTAL	4	1
TOTAL	16	30			
FOOD:			SERVICES:		
Grocery	15	7	Laundromat	6	5
Restaurant/fast foods	5	15	House rental/day care	5	0
Catering	2	1	Travel agency	2	0
TOTAL	22	23	Arcade	1	4
			Bottle depot	1	0
MISCELLANEOUS:			Health spa	1	0
Homestead	0	3	Boat rentals	1	1
Commercial	2	2	Band/music	3	1
Farming	3	3	Golf course	1	1
Wilderness camp	2	3	Mobile jewelry	1	0
Fashion designer	1	1	Arts & crafts	14	11
Other	0	5	Cleaning - house	0	6
Unknown	2	5	Commercial/Office	1	6
TOTAL	10	22	Personal services	1	2
			Recreational	0	2
			Motels	0	3
			Other	0	2
			TOTAL	38	44

	1982/83	1984/85
TOTAL PROJECTS:	203	229
All Categories		

Exhibit 3.4

IBDS: Summary of Funded Projects by Industry (1976 to 1985)

	<u>Projects</u>		<u>Projects</u>
TRANSPORTATION:		RETAIL STORES:	
Trucking	35	Clothing	2
Busing	19	Lumber supplies	2
Taxi	2	Electric appliances	1
Courier	2	Merchandise	3
Ambulance	2	Cars	0
TOTAL	60	Other	2
		TOTAL	10
GENERAL CONTRACTING:		MANUFACTURING:	
Heavy Equipment	2	Concrete	0
House Construction	2	Teepees	0
Trades	15	Sawmill	0
Sub-contracting	5	Upholstery	0
Water well drilling/rig	2	Heater maintenance	0
Road Construction	2	Canoe factory	0
Tile Cleaning	0	Drapery	1
Sign Painting	0	TOTAL	1
Oilfield servicing	0		
TOTAL	28	EDUCATIONAL:	
AUTOMOTIVE:		Modelling school	0
Gas bar/auto repair	6	Museum	0
Car wash	0	Training school	1
Tire shop	0	TOTAL	1
Auto parts	0		
TOTAL	6	SERVICES:	
FOOD:		Laundromat	1
Grocery	4	House rental/day care	0
Restaurant/fast foods	1	Travel agency	0
Catering	0	Arcade	0
TOTAL	5	Bottle depot	1
MISCELLANEOUS:		Health spa	0
Homestead	0	Boat rentals	1
Commercial	2	Band/music	1
Farming	0	Golf course	0
Wilderness camp	0	Mobile jewelry	0
Fashion designer	1	Arts & crafts	3
Other	1	Cleaning - house	0
Unknown	0	Commercial/Office	1
TOTAL	4	Personal services	2
		Recreational	0
		Motels	1
		Other	1
		TOTAL	12

TOTAL PROJECTS: 127
All Categories

Small Business Development Projects
(1982-83 and 1983-84)

Industry	% of Applications	% of Operational Clients
Transportation	22	47
General Contracting	23	22
Automotive	11	5
Food	10	4
Retail Stores	5	8
Manufacturing	2	1
Educational	1	1
Service	19	9
Miscellaneous	<u>7</u>	<u>3</u>
	100%	100%

Further analysis of the small business assistance activity data is provided in Section 3.2.

Management Training

In working with clients wanting to start businesses, IBDS has required the client to be actively involved in the process. Though not a formal training program, clients have been guided through the steps in starting a business and have thereby been exposed to by variety of topics including budgeting, market assessment, financial management and proposal writing. In practical terms, clients are confronted with the need to properly evaluate their own capabilities as well as the prospects for a successful business.

In a more formal sense IBDS has developed training programs and capabilities in the following areas:

- o workshops and seminars on business management (one to three days)
- o business administration training courses (three months)
- o business administration short courses (one to two weeks), extracting from the long course.

IBDS has on several occasions sought funds to develop and sustain an ongoing training program. In 1981 Foothills Pipelines (Yukon) Ltd. donated \$100,000 to the Corporation to develop a business administration training program which was intended to complement, not duplicate, those offered by other learning institutions. The purpose of the program was to provide the basics of administration such that, at the very least, individuals could identify weaknesses and needs and seek appropriate professional assistance where necessary. The program was targetted at individuals who would be returning directly to administrative or economic development positions with bands. Between 1981 and 1983 a total of thirteen students enrolled in the program with eight students completing the course work. Eight of the students also obtained full-time employment upon completion. The training program was developed and delivered by IBDS staff. All funds from Foothills were used for trainee expenses with no direct administrative charge from IBDS. A proposal was developed for continuation of the program but insufficient funds were raised from government and industry to sustain the program.

Commencing in 1983/84, IBDS began offering two week training programs on a fee-for-service basis (\$300 per person per session). In 1983/84 three two-week sessions were held (two in bookkeeping, one in financial management) with twenty participants.

In 1984/85 training projects were not actively pursued, for the following reasons:

1. They are time consuming in both preparation and delivery.
2. New training programs in small business development for natives came on stream during the year (University of Calgary, University of Lethbridge, Yellowhead Tribal Council).

Management Consulting to Bands and Band Administrative Services

IBDS began to offer services directly to the Indian Bands in Alberta in the fiscal year 1983/84 after the Board of Directors authorized this direction. IBDS distinguishes between management consulting and administrative services primarily on the basis of the project duration and extent of involvement. Management consulting is intended to be of a one-time short-term nature. Services are provided on a contract fee basis. A total of 23 projects had been completed or were active at the end of 1984/85 fiscal year with fees totalling \$54,310 in 1984/85 and \$14,225 in 1983/84.

Exhibit 3.5 provides a breakdown of band projects by type and value. IBDS reports that they have received from twenty to twenty-five enquiries per year in 1983/84 and 1984/85 regarding provision of Band services. Band services have to-date been the responsibility of the Operations Manager and the General Manager. The General Manager reports that, at present, 40% to 50% of his time is allocated to Band consulting (particularly computer related activities) and that approximately 50% of the Operations Manager's time is allocated to Band projects. It is apparent that IBDS's Band consulting services are becoming more diversified and larger over time.

Exhibit 3.5

IBDS: Band Projects

	<u>Contracts Signed in</u>		<u>January</u>
	<u>1983/84</u>	<u>1984/8</u>	<u>1986 Active</u>
1. Feasibility Studies	1	4	4
2. Market Studies			1
3. Business Plans	5	2	3
4. Management Training			3
5. Computer Installation and Training	1	1	4
6. Policies and Procedures Manuals			2
7. Financial Planning		2	
8. Other**	<u>3</u>	<u>4</u>	<u>1</u>
Total Number of Contracts	10	13	18
Total Value	\$14,225	\$54,310	\$55,701*
Average Value	\$1,423	\$4,178	\$4,642
Distribution of Contracts by Treaty Area			
Treaty 6	3	1	
Treaty 7	7	5	
Treaty 8	0	5	

* 12 contracts signed, 6 under development.

** classification of 2 projects in each of 1983/84 and 1984/85 was not possible at the time of writing.

Source: IBDS Operations Reports.

3.1.5 Revenues and Expenditures

Exhibit 3.6 presents revenue and expenditure data for IBDS over the evaluation period. The following points are particularly noteworthy:

- o IBDS entered the 1980/81 fiscal year with an accumulated surplus of \$98,474 which was substantially augmented by the special grant (\$210,000) received from the federal Western Economic Development Initiative Program in 1981/82.
- o From 1981/82 to 1984/85 DIAND funding remained constant at \$325,000 per annum.
- o Excluding the special grant in 1981/82, expenses have exceeded revenues in all years except 1984/85. The Corporation has sustained operations by drawing down on its accumulated surplus. Reduction of the surplus has also led to a proportionate reduction in interest income.
- o Given a deficit of \$73,000 in 1983/84 and an accumulated surplus of about \$93,000 at end of year 83/84, the Corporation took steps to reduce expenses by 13.2% and increase revenues by 6.1% (through generation of fees revenue) to result in a small surplus in 1984/85.
- o Significant savings accrued in 1984/85 as a result of:
 - a move to less expensive office space
 - a reduction of one staff position (administrative assistant)

Exhibit 3.6

IBDS - Summary of Revenues and Expenses
(Source: Annual Financial Statements)

	1980-81	Percent	1981-82	Percent	1982-83	Percent	1983-84	Percent	1984-85	Percent
REVENUES:										
DIAND Grant/Cont.	30000.00	91.0	325000.00	55.1	325000.00	91.5	325000.00	87.9	325000.00	82.8
SPECIAL GRANT			210000.00	35.6			16725.00	4.5	46260.00	11.8
Prof. Fees - Band							1532.00	0.4	3914.00	1.0
Prof. Fees - Other							7071.00	1.9	7698.00	2.0
Training Fees							19339.00	5.2	9415.00	2.4
Interest	29579.00	9.0	54709.00	9.3	30377.00	8.5				
TOTAL REVENUE	329579.00	100.0	589709.00	100.0	355377.00	100.0	369667.00	100.0	392287.00	100.0
EXPENSES:										
Overhead:										
Acct/Legal	8203.00		3885.00		8038.00		4787.00		3215.00	
Advertising	1621.00		1256.00		2147.00		10179.00		1241.00	
Bank Charges	44.00		38.00		31.00		46.00		108.00	
Office Equip.	1989.00		148.00		2923.00		0.00		1528.00	
Office Rent	20190.00		49979.00		39650.00		39884.00		23681.00	
Office Supplies	12017.00		11375.00		5419.00		5812.00		4134.00	
Parking	3678.00		6597.00		6535.00		5840.00		4220.00	
Proposal Devel.	2296.00		2655.00		2839.00		2059.00		2188.00	
Recruitment	4715.00		21.00		1086.00		222.00		518.00	
Repairs	2859.00		1004.00		2328.00		3455.00		1403.00	
Telephone	13964.00		17288.00		19720.00		18033.00		16776.00	
Miscellaneous	-1885.00		-1803.00		1216.00		150.00		0.00	
Total Overhead:	69691.00	18.0	92443.00	21.1	91932.00	20.9	90467.00	20.4	59012.00	15.4
Salaries & Benefits:										
Administrative	94510.00		109765.00		126096.00		115007.00		95351.00	
Operations	131522.00		136688.00		118092.00		137331.00		139986.00	
Total Salaries & Ben.	226032.00	58.5	246453.00	56.3	244188.00	55.5	252338.00	57.0	235337.00	61.2
Travel	36752.00	9.5	39379.00	9.0	48640.00	11.1	45357.00	10.2	51090.00	13.3
Road Hon. & Travel	54008.00	14.0	59393.00	13.6	55215.00	12.5	2554.00	0.6	912.00	0.2
Pres. Hon. & Travel	0.00	0.0	0.00	0.00	0.00	0.0	52033.00	11.8	37956.00	9.9
TOTAL EXPENSES	386483.00	100.0	437668.00	100.0	439975.00	100.0	442749.00	100.0	384307.00	100.0
% CHANGE YR to YR	+6.1%		+13.2%		+0.5%		+0.6%		-13.2%	
ACCUMULATED SURPLUS/DEFICIT:										
Beginning of Year:										
Surplus/(Deficit)	155378.00		98474.00		250515.00		165917.00		92835.00	
Add/(Subtract)										
Current S/(D)	-56904.00		152041.00		-84598.00		-73082.00		7980.00	
End of Year:	98474.00		250515.00		165917.00		92835.00		100815.00	
Surplus/(Deficit)	98474.00		250515.00		165917.00		92835.00		100815.00	

- a reduction in the President's Honorarium and Travel Expense.
- o Prior to 1983/84 the President's Honorarium and Travel was included in "Board Honoraria and Travel". Beginning in 1983/84 this item was accounted for separately.
- o In 1982/83 two project manager positions were vacant for part of the year resulting in reduced Operation's Salaries and Benefits.

Further analysis of these data is provided in Section 3.2.2.

3.2 Performance Assessment - Findings and Recommendations

The performance of IBDS over the evaluation period has been assessed in terms of effectiveness, efficiency and implementation of proper policies, procedures and controls.

3.2.1 Effectiveness

We have evaluated the effectiveness of IBDS by analysing the degree to which the Corporation has been effective in achieving its corporate objectives as stated in Section 3.1.2. In addition, we have examined several indicators of service delivery performance: awareness, accessibility, and timeliness. In reviewing objectives achievement we have grouped the objectives into the following components. The components are listed in the order of priority that IBDS has placed in them.

- o Indian Business Development
- o Developmental Client Services
- o Operational Client Services
- o Education, Training and Entrepreneurial Skill Development
- o Indian Business Identification and Enumeration
- o Assistance with External Services
- o Economic Opportunities Identification and Communication

It is recognized that, given limited resources, the Board and management of IBDS have had to place priorities on allocation of their resources to achievement of the above objectives. The discussion which follows is structured such that questions are posed, findings summarized, recommendations stated, and supporting analysis described.

Indian Business Development

Question: Has the Corporation been effective in the development of new and existing Indian businesses in Alberta?

Findings: IBDS has assisted in establishing 102 new Indian small businesses in Alberta between November of 1980 and October of 1985. About one in ten business concepts presented to IBDS for assistance proceeded to funding and operation. At the end of 1985 approximately one-half (56%) of all businesses started with IBDS assistance over the evaluation period were known to be still in operation by the original proponents; about 15% of these operating businesses were in loan arrears or collection and 19 of the 102 firms have been sold or voluntarily closed. Over the history of IBDS, approximately 13% of IBDS financing applications to the IEF have been declined.

We find that, given the resources available to the corporation, IBDS has been reasonably effective in the development of new Indian businesses. The business closure rates and arrears rates experienced by IBDS clients are comparable to industry norms for businesses in the population at large. (See Exhibit 3.9 and a subsequent section on IEF account performance). This performance speaks well for the efforts of the clients and for the overall performance of the Corporation.

Analysis: Our analyses of effectiveness of this objective component have been grouped as follows: number of clients and repeat clients, closure of files, business failure rate, funding leverage, reasonable targets and IEF account performance.

Number of Clients and Repeat Clients

Exhibit 3.2, presented earlier, shows the number of new small business project applications handled by IBDS over the evaluation period. A project application consists of a client with a business concept. In addition, a certain number of active projects are carried over from year to year. An analysis of client lists indicated that a number of clients appeared more than once within a given year, thus leading to a lower number of clients than projects:

	1982/83	1984/85
# of projects	174	272
# of clients	148	244

It is apparent from these data that most (85 to 90%) of the active projects in any year are associated with unique individual clients. Further analysis of the 1984/85 client list indicated that a very small percentage of the clients appeared more than twice.

Clients 1984/85			
	%	Projects	
clients appearing 1 time	90.6	221	221
clients appearing 2 times	7.8	19	38
clients appearing 3 times	1.2	3	9
clients appearing 4 times	<u>0.4</u>	<u>1</u>	<u>4</u>
	100.0	244	272

Of the 23 clients which appeared on the client lists two times or more, 15 clients reoccurred with the same business concept. This represents only 6% of the total new client base.

We also conducted a between year check on clients to determine the degree to which the same client base was being served from year to year. Of the 244 clients served in 1984/85, 35 (14%) were also active clients in 1982/83. Thus there appears to be a high turnover in the individuals being served.

Closure of Files

Exhibit 3.7 presents the status of IBDS business development project files as of year-end for 1981/82 through 1984/85. Files are closed (i.e. project not given any further active attention) for a variety of reasons depending on the phase at which the decision is made; for example:

Phase I - Initial Contact

- o background discussion only - no further contact
 - o Treaty Status not valid
- (if application form complete - move on to next phase).

Phase II - Preliminary Evaluation

- o business concept and client not viable
- (if preliminary viability demonstrated - move on to next phase).

Phase III - Developmental

- o client withdrawals

Exhibit 3.7**IBDS: Status of New Project Files at Year-End**

		1981/82	1982/83	1983/84	1984/85
I	open	14	0	17	35
	closed	39	56	76	82
II	open	10	0	20	23
	closed	56	76	82	74
III	open	5	0	7	15
	closed	17	40	18	23
IV	open	8	3	6	3
	closed	8	11	4	4
V	open	31	21	14	11
	closed	<u>1</u>	<u>0</u>	<u>4</u>	<u>2</u>
		189	207	248	272
total open		68	24	64	87
total closed		121	183	184	185
% open		36%	13%	35%	47%

- o project proven non-viable
(if proposal reviewed and accepted by General Manager
- move on to next phase).

Phase IV - Financial

- o financing rejected by loan agency.

Phase V - Operational

- o client declines assistance
- o business closes or is sold

The file closure data presented in Exhibit 3.7 indicates that IBDS is effectively moving its clients through the progressive stages while at the same time screening out non-viable projects.

The number of open files has varied significantly amongst years, peaking in 1984/85 with 87 files with 47% of all files open.

Exhibit 3.8 presents the business status and file status as of January, 1986 for the 127 business started with IBDS assistance (Phase V) since inception of the Corporation and the 102 businesses started since 1981. Of the 127 businesses, there are 25 active files (i.e. services being provided) and 102 inactive files (services not provided). We have reviewed the reasons for file closure as provided by IBDS and find them to be, in general, justifiable. No detailed corroboration with clients was conducted, however the documentation provided by IBDS cites efforts on the Corporation's behalf to maintain contact. A review of selected operational client files indicated that telephone

Exhibit 3.8**IBDS: Status of Businesses Started with IBDS Assistance
Between 1976/77 and 1984/85 (as of January, 1986)**

Status	Project		Project		Total	
	File	Closed	File	Active		
Still operating - current	16	15.7%	16	64.0%	32	25.2%
Still operating - 3 mos. arrears	1	1.0%	1	4.0%	2	1.5%
Still operating - no contact	6	5.9%	0		6	4.8%
Still operating - no debts	7	6.8%	8	32.0%	15	11.8%
Closed - no debts	24	23.5%			24	18.9%
Sold business	5	4.9%			5	3.9%
Still operating - in collection	10	9.8%			10	7.9%
Failed	30	29.5%			30	23.6%
Status unknown	3	2.8%			3	2.4%
	102	100.0%	25	100.0%	127	100.0%

Exhibit 3.8b**IBDS: Status of Businesses Started with IBDS Assistance
Between 1980/81 and 1984/85 (as of January, 1986)**

Status	Total	
Still Operational with IBDS	25	24.5%
Still Operating - 3 mos. arrears	6	5.9%
Still Operating - no contact	11	10.8%
Still Operating - no debts	15	14.7%
Closed - no debts	16	15.7%
Sold business	3	2.9%
Still Operating - Collection	11	10.8%
Failed	14	13.7%
Status unknown	1	1.0%
	102	100.0%

contact was generally maintained every four to six weeks.

Of particular interest were Phase IV closures since these represent rejection by a financial institution or government lender. Of the eight Phase IV closures in the 1983/84 through 1984/85 period, IBDS reported that five were declined by DIAND, one by a bank and DIAND, one by a bank alone, and one withdrawn at the client's request. Reasons for rejection include lack of experience, low equity, personal outstanding debts, no confirmation of work, and age. IBDS reported that, in four of the eight closures, "political pressure" was applied to prepare the proposal.

Given that 45 businesses were successfully funded in 1983/84 and 1984/85, we find eight unsuccessful funding efforts to be acceptable (i.e. 45 of 53 applicants for funding or 85% were successful).

Business Failure Rate

One measure of the effectiveness of IBDS is the failure rate of the businesses it has assisted in comparison to the failure rate experienced in the general business population. Exhibit 3.9 summarizes an analysis of the actual and expected business failures amongst IBDS assisted businesses. The Dun and Bradstreet definition of failure includes bankruptcies, liquidations, receiverships and "walk-aways". As such, we believe the expected failures calculated in this fashion should be closely comparable to the IBDS definition which includes businesses in collection, business closures with debts owing and businesses for which the status is unknown.

Exhibit 3.9

Expected and Actual Business Failures – IBDS Assisted Businesses

	76/ 77	77/ 78	78/ 79	79/ 80	80/ 81	81/ 82	82/ 83	83/ 84	84/ 85	Total
1. # businesses: Started with IBDS assistance	2	0	10	13	13	24	20	26	19	127 actual starts
2. cumulative years to end of 1985:	9	8	7	6	5	4	3	2	1	
3. % failure expected by end of 1985*	78.0	74.6	69.2	63.3	54.6	43.9	30.9	11.9	2.1	
4. # of expected failures:**	1.6	0	6.9	8.2	7.1	10.5	6.2	3.1	0.4	

Actual IBDS failures:

	1976/77-1984/85	1980/81-1984/85
a) Still operating - in collection	10	11
b) Failed	30	14
c) Status Unknown	<u>3</u>	<u>1</u>
Total Actual Failures:	43	26
Expected Failures:	44	27

* Based on actual business failure rates for Canada as documented in the Canadian Business Failures Record published by Dun and Bradstreet.

** (4) = (1) x (3)

In comparison to 44 expected failures over the 1976/77 to 1984/85 period IBDS reports 43 actual failures. Similarly over the 1980/81 to 1984/85 period 27 failures are expected and 26 reported. These data represent failure rates of 33.9% (43/127) and 25.5% (26/102) respectively. The observed failure rates for IBDS assisted businesses are therefore closely comparable to rates experienced in the small business environment at large. Given the depressed state of the Alberta economy over a good part of the period examined, the performance of IBDS assisted businesses is generally positive.

Business failures were concentrated in the transportation, general contracting and retail industry sectors. The reasons identified for business failures include:

- o vehicles lost in accidents
- o loss of contract work
- o problems with monetary receivables/payables
- o small market potential
- o financing of inventory
- o personal problems.

In most instances, the precipitating causes of failure were beyond IBDS's immediate influence.

Business Closures

It is not clear that the obverse of the failure rate as defined above could be taken as a "success" rate since a significant proportion of the businesses not classed as failures had either been sold or had closed with no debts.

For instance over the 1976/77 to 1984/85 period 84 businesses were not classified as still operating (in collection), failed, or status unknown. Of these 84 businesses, 24 were closed with no debts and 5 were sold. Thus 55 of the original 127 business starts were still operating (not in collection) under original ownership.

The reasons identified for ceasing business operations (with no debt) include:

- o sale of business
- o loss of contract work
- o full-time employment elsewhere
- o activity in community or family
- o poor markets (e.g. futon store).

The evaluation did not include a detailed case study analysis of these closures. In the absence of such an analysis it is difficult to determine how many such closures might have been prevented with increased emphasis on advisory services to operational clients. It appears in almost all instances the reasons cited were beyond IBDS's influence.

Funding Leverage

Exhibit 3.10 presents the funds obtained for projects funded in 1984/85 on behalf of 22 clients. These data are illustrative of the funding mix acquired for IBDS clients.

Exhibit 3.10 IBDS Project Funding 1984/85

Source	Amount	%	No. of Clients Using Source
Bank	\$176,800	34	8
Indian Equity Foundation	84,114	16	12
Indian Economic Dev. Fund	46,900	9	4
DIAND Contributions	43,300	8	13
Personal Equity	92,486	18	13
Other	<u>73,500</u>	<u>14</u>	3
Total	\$517,100	100	

These data indicate that IBDS has been effective in tapping a variety of funding sources on behalf of its clients.

Although the proportions of funding coming from banks (34%) and personal equity (18%) are acceptably high there is room for improvement in the proportions of proponents using these sources. For instance, bank financing was acquired for only eight clients in 1984/85. Seven clients received DIAND contributions only with no other sources. All DIAND contributions were small contributions of \$6,000 or less. It is significant however that total personal equity exceeded IEDF and DIAND funding in 1984/85, indicating an intention to utilize non-departmental sources.

Reasonable Targets

As well as general objectives, it is useful for any organization to have specific performance targets.

IBDS, in its annual operations report, has repeatedly set performance targets in terms of new clients served and businesses funded and in terms of personal objectives for personnel. These targets generally build upon the activity of the firm in previous years. We feel however that it would also be useful to place the business creation targets of the corporation within a larger context. The following calculations are intended to provide a general frame of reference for long-term business creation goals; they are not intended to provide a basis for comparison with past business creations or a basis for short-term funding levels.

- o there are approximately 120,000 small business in Alberta;
- o between 20,000 and 30,000 new small businesses are started-up in Alberta each year and slightly less closed down each year, resulting in net increases of from 3,000 to 5,000 businesses per year;
- o new small business starts are therefore in the order of 10 to 15 per 1,000 population per annum;
- o applying this ratio directly to Alberta's Indian population (approximately 38,000) results in business starts of 380 to 570 businesses per year. Given the disadvantages and locational constraints faced by Indians, this number of starts would never reasonably be expected to occur.
- o accounting for a rural economic base, a youthful age distribution and historical economic disadvantages, a reasonable expectation of new business starts from within the Indian population might be 100 per year; this might be balanced by a loss of 70 to 80 per year under normal circumstances;

- o assuming that IBDS might be involved in one-half of status Indian small business starts, we derive a figure of 50 IBDS-assisted starts per year, as a long-term target.

This compares to the 20 to 25 actually started each year thus indicating considerable scope for expansion of business creation activity over the long term. It is recognized that many impediments (e.g. lack of education, lack of personal equity, barriers to commercial capital) to business development exist and will likely continue to exist over the next decade at least. The long-term targets identified above therefore represent a challenge to both Indian business people and to the Institutions serving them. The businesses currently being created stand as a credit to the Indian people behind them.

IEF Account Performance

Most IBDS clients seeking financing beyond the level of an DIAND contribution (e.g. \$15,000) have applied for IEF repayable no interest loans. One measure of the performance of IBDS in developing and sustaining viable small business is the performance of IBDS clients who hold IEF loans. Exhibit 3.11 summarizes this performance over two time periods and in comparison to accounts for which IBDS provided no services (e.g. applicant alone, DIAND originated or band originated). These data are extracted from detailed tables presented in Section 4.0. Conclusions derived from Exhibit 3.11 are as follows:

- o Over the period since inception of IEF, IBDS accounts and non-IBDS accounts are similar in

Exhibit 3.11

IEF Account Statistics - IBDS and Non-IBDS Sourced Accounts

a) Applications received and authorized

	#Applications	#Authorized	Source of Application			
			IBDS %		Non-IBDS %	
1981-85	102	75	58	77.3	17	22.7
1978-80	120	86	28	36.8	58	67.4
Total 1978-85	222	161	86		75	

b) % of applications declined

	Source of Application	
	IBDS	Non-IBDS
1981-85	11.0%	22.0%
1978-80	13.7%	10.7%

c) % of accounts in arrears
as of September 1985

1981-85	20.7%	11.8%
1978-80	16.3%	12.0%

d) % of accounts in arrears
or written off as of September 1985

1981-85	32.8%	11.8%
1978-80	45.3%	49.3%

Source of primary data: Exhibit 4.2

Arrears is defined as 90 days or more delinquency in payment.

terms of the percentage of accounts written off or in arrears.

- o Current arrears rates (12.0% and 16.3%) for all accounts are well within the 17% figure provided to us by the Alberta Opportunity Company (AOC), a lender of last resort to moderate-to-high risk business ventures.

AOC reports that their figure of 17% has almost doubled in the last three years.

- o The relative contributions of IBDS and non-IBDS sources to IEF accounts have been reversed since 1981. IBDS is now the primary source for IEF loans.
- o Since 1981 a significantly greater proportion of IBDS originated accounts is in "arrears or written off" when compared to non-IBDS originated accounts. This fact must be balanced against the observation that a much lower percentage of IBDS applications have been declined by IEF.
- o Regardless of how the data are interpreted, the write-off rates for both IBDS and non-IBDS clients are very high (1978 to 1985):
 - 29.0% of IBDS accounts (by number) for a total of \$330,000
 - 37.3% of non-IBDS accounts (by number) for a total of \$221,300.

Developmental Client Services

Question: Has the Corporation been effective in providing or assisting in the preparation of feasibility assessment

and analysis, proposal preparation and any other assistance necessary in order to obtain funding for Indians and Indian businesses from commercial and governmental sources? (Objective 8, Articles of Association).

Findings: Overall the Corporation appears to have provided timely response and adequate progression for the majority of its clients over the evaluation period. However between seven and ten percent of recent clients have spent more than two months in either Phase II or III. Comments from client interviews indicate that dissatisfaction exists amongst a significant proportion of the clients interviewed with respect to timeliness of response and field service delivery. This appears to be primarily due to existing project officer caseloads and travel time allotments which are indicative of an inability to provide at least monthly visits to all clients.

Business plans prepared for those clients seeking sizeable project funding (i.e. more than \$10,000) are of a quality adequate for presentation to commercial lenders. The sophistication of the business plans are in reasonable accord with the size and complexity of the projects.

Sixty-five percent (65%) of developmental clients interviewed indicated that IBDS assistance met or exceeded their expectations. Fifty-nine percent of development clients indicated that they would use IBDS services again.

Analysis: Our assessment of the effectiveness with which IBDS delivers development client services is based on:

- o the process by which clients are screened;

- o the timeliness of response to client requests;
- o a judgemental assessment of business plan quality;
- o client comments from the interview program;
- o a review of project officer caseloads.

Screening of Projects

The five-phase system implemented by IBDS provides an organized and effective method for selecting those projects which, on the basis of expected ability, merit development of a business plan and financing proposal. Exhibit 3.2 showed in 1983/84 and 1984/85 greater proportions of projects were remaining in Phases I and II as of year-end. This is likely a result of the increased workload in those years. The number of clients progressing to Phase III and beyond declined from about 75 in 1981/82 and 1982/83 to about 55 in 1983/84 and 1984/85. Thus although substantially fewer business plans were being prepared, many more projects were subjected to preliminary evaluation in the year. The effect of the increased new project caseload appears, therefore, to have resulted in a reduction in the rate at which clients can progress through Phase III and beyond.

Timeliness of Response

Exhibit 3.12 presents the results of an analysis of the time taken between Phases II to III, and III to IV for clients in the 1984/85 year. A significant number of clients pass through the phases immediately, indicating that a substantial amount of information is in place prior to entering the phase. Sixty-five percent (65%) of clients move from Phase II to III in a month or less and seventy-four percent (74%) move from Phase III to IV in a month or less. Between seven and ten percent of clients take more than two months in either stage II or III. Given that progress through the stages is dependent on the client's level of activity

we find that these progress rates are in general acceptable. Notwithstanding these progress rates a significant proportion of clients interviewed indicated a desire for more timely response (see discussion hereafter).

Exhibit 3.12. Time Between Phases 1984/85.

Percentage of clients advanced by time taken

	Weeks							
	Immediate	1-2	3-4	5-6	7-8	9-10	10+	
Phase II to III	28	25	12	16	12	2	5	100%
Phase III to IV	16	32	26	11	5	0	10	100%

Business Plan Quality

We reviewed ten business plans selected at random from Phase V clients. The format and presentation of the plans were of a standard acceptable to commercial lenders. The depth of analysis, particularly on markets, was reasonably related to the magnitude of the business venture. Documentation of market viability was based on:

- o verification of contracts or contract commitments;
- o comparison to similar operations to confirm volumes and costs;
- o conclusions on market size and penetration based on reasonably justifiable assumptions.

Except for a few of the larger projects, detailed market surveys were not conducted. In one instance IBDS followed up by comparing projected volumes with actual volumes. In that case the projections were acceptably accurate. Our general impression is that the business plans are of a sufficient quality to be presented to commercial lenders.

Client Comments

Section A.1.5 of this report summarizes comments received during seventeen interviews conducted with IBDS developmental clients. The following points are most worthy of note:

- o 11 of the 17 respondents (65%) indicated that the IBDS assistance met or was significantly above their expectations; 4 respondents indicated that the assistance was significantly below expectations and 2 could not make a judgement.
- o 7 of 17 (41%) respondents indicated that the assistance has been timely; 9 (53%) indicated that it has not been timely.
- o Respondents were also about equally split between those that responded positively that IBDS had helped them learn and those that responded that IBDS had not helped them learn.
- o The most common suggestions for improvement were "happy as is" (4), "speed up decision-making" (4), and "provide more field staff" (4).
- o 10 of the 17 (59%) clients indicated that they would use IBDS services again.

The impression gained from these interviews is that there is a significant proportion of the client base (perhaps a third to a half) that has to some extent been dissatisfied with IBDS services. However, some level of dissatisfaction is expected in any public service organization. In the case of IBDS, it is particularly vulnerable to discontent amongst those clients who are advised not to proceed with a project. We are unable to distinguish the extent of such personal bias. The impression left, however, is that IBDS should address, within the limits of its resources, the dissatisfaction which is expressed, particularly

in terms of timeliness of response and field contact. We do note also that in some instances the delays on IBDS' part can be attributed to the client and to other participants such as equipment suppliers, loan application evaluations and licensing agencies.

Project Officer Caseloads

Current active caseloads for the three project officers average about 25 developmental clients and 8 operational clients per officer. It is our judgement that these numbers represent the approximate maximum caseload which would permit minimum monthly personal contact and minimum bi-weekly telephone contact with each client. Given these caseloads and our judgement of the distribution of effort across different kinds of projects, it is not surprising that a significant proportion of the client base is dissatisfied with timeliness of service delivery and field access to project officers.

Latitude for Service Improvement

Some latitude exists for a shifting of senior staff resources from band consulting to developmental client servicing. Such a shift would however result in a loss of revenue that would have to be compensated for by a reduction in overall costs or an increase in DIAND funding. The latitude for cost reduction is discussed in Section 3.2.2; it is apparent, however, that cost reduction would not fully compensate for the loss in Band consulting revenue.

Recommendation:

We recommend that IBDS place greater emphasis on field servicing of developmental clients, particularly those in Phases II and III. Under existing project officer caseloads this emphasis would imply augmentation of IBDS field services resources by DIAND.

Note: The issue of changing contingent fees to developmental clients is discussed in Section 6.3.2 of this report.

Operational Client Services

Question: Has the Corporation been effective in providing advisory services and direct assistance to operational businesses?

Findings: We find that the Corporation is constrained in its ability to serve operational clients intensively and at a high level of personal contact for the following reasons:

1. Reluctance or refusal of a significant proportion of the client base to accept IBDS services.
2. Constraints placed on project officer's time allocations due to increasing developmental client demands.

We find that although the operational client base served by IBDS is highly pleased with the Corporation's services, the growth and viability of the businesses served is, on average, reported to be generally less than that of non-IBDS assisted businesses. It should be noted that these observations are based on small interview sample sizes.

We find that IBDS is providing acceptable but less than desirable frequency of active service with operational clients and that assistance is focussed on financial recordkeeping.

We also find that there is a lack of policy definition at present on what services should be provided to

operational clients, on what basis (e.g. free or fee for service), and for how long?

Analysis: Our assessment of this question is based on:

- o a review of randomly selected operational client files;
- o a review of reasons provided by IBDS for closure of operational client files;
- o an assessment of operational client business status;
- o client comments from the interview program.

Client File Review

Several operational client files were reviewed to determine the type and extent of services being provided to operational clients. As part of its fee-for-service package, IBDS offers monthly accounting services to operational clients. In addition, a contract which has been recently signed with clients progressing through Phases II and III stipulates that IBDS will "set up and maintain a ledger entry bookkeeping system, prepare monthly bank reconciliations, inventory count, accounts receivable and payable reconciliation, monthly operating statements and semi-annual balance sheet, for a period of six (6) months".

It is our understanding that this contract arrangement for six months services has been reconsidered by IBDS and will be omitted from future contracts. Exhibit 3.13 itemizes the services currently specified by IBDS in its Operations Manual. At present it is unwritten IBDS policy to negotiate fees for bookkeeping and tax preparation services and to provide inventory expansion and bank reconciliation at no charge to operational clients. Furthermore, IBDS will prepare a summary of financial information (i.e. revenue and expenditures, assets and liabilities) on behalf of a client at no charge only if such

Exhibit 3.13. Services To Be Offered Operational Clients

1. Letter of Congratulations;
2. Record all funds received;
3. Open Company bank account;
4. Set up accounting, record-keeping system and files;
5. Record all transactions and capital expenditures;
6. Review legal obligations;
7. Assist with a marketing program:
 - a) Review of work availability;
 - b) Developing approach to attract customers;
 - c) Advertising;
 - d) Promotional material;
 - e) Joining Trade Association; and,
 - f) Comparing costs to budget.
8. Assist with operational procedures:
 - a) Production;
 - b) Work Flow;
 - c) Presentation;
 - d) Pricing;
 - e) Purchasing;
 - f) Inventory; and,
 - g) Bids.
9. Personnel:
 - a) Interviewing and hiring;
 - b) Employer relations;
 - c) Time cards and Payroll; and,
 - d) Supervision of Employees.
10. Assist with Company policies:
 - a) Credit;
 - b) Hours of Operation;
 - c) Cheque cashing;
 - d) Inventory levels;
 - e) Discounts;
 - f) Controls;
 - g) Reporting;
 - h) Payments; and
 - i) Authorization.
11. Continued Contact with Client:
 - a) Assist with collection of data;
 - b) Evaluate results;
 - c) Recommendations;
 - d) Review Controls;
 - e) Re-assess market, pricing, costs;
 - f) Compare to competition;
 - g) Alternative sources of income;
 - h) Expansion;
 - i) Condition of assets;
 - j) Upgrading;
 - k) Maintenance;
 - l) Performance to budget;
 - m) Relation with suppliers; and,
 - n) Quality of work.

Source: IBDS Operations Manual.

information is to be used for personal use by the client. If it is to be presented externally then IBDS would expect to be paid.

Although a provision of the contract between IBDS and operational clients does provide IBDS access to financial records, loan records, and access to review general operations, IBDS does not have the right to impose its services on clients.

We reviewed fourteen active operational client files and can make the following observations.

- o A month-end status report is prepared by the project manager covering loan status, problem areas, assistance provided, jobs created and comments. These reports were found in all files but were found to be terse.
- o In general, there is evidence of letter or telephone contact maintained on a monthly to bi-monthly basis.
- o Personal client visits are more sporadic and generally tied to a specific activity (i.e. inventory, reconciliation of accounts). Recent travel records for project managers indicate that they are reaching four to six Bands each (total of 12 to 18 Bands) per month (in 8 days of travel). It is likely that operational clients are being visited every two to three months with the exception of particularly troublesome accounts.
- o In general, the services provided by the project officers focus on income statements, bank reconciliation and inventory monitoring. Many of these tasks are carried out in Edmonton; project managers estimated that they take from one to five hours per month per operational client carrying out these tasks (perhaps a total of 15 to 20 hours per month).

- o It is apparent that project managers' field time is divided thinly between developmental and operational clients. Operational clients that are apparently functioning smoothly are monitored primarily by loan status reports from IEF and DIAND.
- o Existing staff resources relative to project manager caseloads do not permit adequate delivery of the full set of services itemized in Exhibit 3.13.

Reasons for Closure of Operational Client Files

We have reviewed the reasons cited by IBDS for closure of files for those clients still operating a business. In almost all cases IBDS states that files have been closed because either the client clearly declined offers of IBDS assistance, there has been no response of clients of offers of assistance or contact has simply been lost. Exhibit 3.8a shows that of sixty-five operating businesses, there are twenty-five active files.

Operational Client Business Status

We note as well from Exhibit 3.8a that, of the sixty-five businesses which are still operating, twelve (18.5%) are three months in arrears or in collection. This rate compares reasonably well with the 14% to 15% rate currently experienced by the Alberta Opportunity Company and the 15% to 20% rate for Alberta cited to the consultants by the Federal Business Development Bank.

Client Comments

The results of interviews with thirteen IBDS operational clients funded through IEF are presented in Annex A (A.1.4). The following points are particularly noteworthy:

- o 46% of IBDS clients reported growth in their business as compared to 88% of non-IBDS clients.
- o 46% of IBDS clients reported that their business was highly viable as compared with 63% of non-IBDS clients.
- o 92% of IBDS clients reported that the service they received (i.e. IBDS/IEF) met or exceeded their expectations.
- o The high degree of satisfaction with IBDS operational services specifically was confirmed in follow-up interviews with seven clients. All of these clients indicated that IBDS met or exceeded their expectations with three clients indicating that IBDS performance was significantly above expectations.

Thus although there is a high degree of client satisfaction with IBDS services, the indications of growth and viability reported by these clients are lower than clients not served by IBDS.

Recommendations:

We recommend that IBDS adopt a more formalized policy on the provision of follow-up services to operational clients. This policy should state the exact nature of services to be provided, the period of time over which services would be provided, and the terms and conditions under which a client would qualify for services.

We recommend that IBDS adopt a clear written policy on charges for operational client services. This policy should define a single structure for charges and eliminate any arbitrary discretion in the setting of fees. We also recommend that these fees be nominal in nature and that they not be intended to recover all costs incurred.

We recommend, given our assessment of the importance of quality follow-up services, that resources be put in place to achieve more active follow-up. If a project officer is dedicated to operational clients only, we estimate he could handle 15 clients. We judge that a project officer carrying 25 to 30 developmental clients should carry no more than 5 active operational clients.

We recommend that IBDS attempt to move suitable operational clients over to other agencies providing business counselling services in Alberta (FBDB/CASE, Alberta Opportunity Company, Alberta Small Business). This process will lead to better integration of these clients in the general economy and allow IBDS to serve a broader client base.

Education, Training and Entrepreneurial Skill Development

Question: Has the Corporation been effective in the assistance, encouragement and co-ordination of education and training of Indians with respect to employment and business opportunities? (Objective 5)

Findings: We find that the Corporation has in the past actively pursued this objective but has been constrained by lack of funds and a reluctance by training funding agencies to support non-accredited training. IBDS has in the past sought funding from a number of agencies for its training activities but:

- o initially CEIC would only accept unemployed people thus excluding Band personnel seeking skill upgrading. This barrier has been addressed;
- o funding was pulled for the "LEAP" program;

- o CEIC indicated a strong preference for accredited training.

We believe that there remains a need for practical and relevant entry level training in business and public administration. Such non-credit, "bridge" training would provide a first contact with the concepts and enough information to permit assessment by the participant of his/her future needs both in an occupational context and in a personal sense. Critical to the success of such training is the engendering of a familiar working and studying environment, a sense of comradeship and a high degree of student concentration and dedication to the course material.

We find that the IBDS training packages have been found by participants to be highly applicable and suitably delivered. The materials, in our opinion, are well prepared.

Analysis: Our analysis of this component is based on:

- o a review of IBDS training activities;
- o interviews with clients;
- o interviews with trainees;
- o discussions with representatives of Indian Affairs (Employment and Training) and CEIC.

Training Activities

IBDS has developed a set of training modules intended to provide introductory exposure to the basics of business and public administration (see Section 3.1.4 for details). A total of 33 persons were registered in these programs. In addition the company recently acquired training funds to have an Indian "counterpart" project manager acquire on-the-job training in

advance of taking over a client portfolio. In 1985, the decision was made not to actively market these training modules because of the time required to prepare and deliver them and because of the emerging availability of similar specialized services at accredited institutions.

Interviews with Trainees

Six interviews were conducted with trainees - three who attended a two week course and three who attended three month courses. Four of the six rated the training as highly applicable, the remaining two as moderately applicable. Most of the trainees found the material presented to be of average difficulty and universally rated the programs as having met or exceeded their expectations. The course location (Edmonton) and time lengths were found to be suitable. With one exception the urban location was preferred to training on reserve due to the exposure received to the outside business world. All but one of the trainees was currently employed in a position relevant to their skills and training. The trainees rated the IBDS training experience very highly and indicated desires to take further training in such topics as report writing, advanced accounting, internal control, computer applications and financial management.

Discussions with DIAND (Employment and Training) and CEIC

Very preliminary discussions with individuals responsible for Indian training indicated the availability of training funds for which Bands can apply (e.g. Indian Management Development Program, Canadian Job Strategy Program). At present DIAND will fund both institutional and private sector training while CEIC in some occupational classes requires accredited training and generally prefers accredited institutions over private consultants or organizations. With adequate Band support and program development, IBDS could qualify as an agency capable

of delivering acceptable training services.

Interviews with Clients - Entrepreneurial Development

The ongoing process of developing and operating a business should lead to entrepreneurial skill development. Twelve out of twenty-one IEF/IBDS clients indicated they had no formal training in business management. Nineteen out of the twenty-one clients indicated that their skills improved since starting the business and twenty clients indicated that they saw opportunities for expansion. Of a separate group of seventeen IBDS developmental clients, nine responded that IBDS helped them to learn more about their potential business and eight responded to the contrary. The latter negative response is somewhat difficult to interpret and may be a manifestation of dissatisfaction with the fate of their business idea.

Recommendations:

We recommend that representatives of DIAND (Employment and Training), CEIC and IBDS review the role that IBDS could play in providing non-accredited introductory training in business and public administration. If a gap in training exists, this role could be more fully developed in conjunction with Band representatives. Delivery by IBDS of this function would require the addition of one staff position and additional space.

Indian Business Identification and Enumeration

Question: Has the Corporation been effective in identifying, evaluating, characterizing and enumerating existing Indian businesses in Alberta?

Findings: We find that the corporation has been inactive in this function. This function has been given a low priority in the corporation relative to the direct provision of advisory services. We concur with this prioritization and agree that enumeration serves no useful purpose unless it is somehow tied to markets or purchasers as a form of advertisement. Evaluation of existing business should be part of an ongoing service to operational clients and an intrinsic part of opportunity identification.

Analysis: Provision for enumeration or cataloging of Indian businesses is currently provided by a number of agencies and firms:

- | | |
|------------------|--|
| BANAC | - Native Business Directory |
| Federal Gov't | - Business Opportunities Sourcing System |
| | - DSS Procurement Lists |
| Provincial Gov't | - Index of Manufacturers |
| | - Supply and Services Purchasing Lists |
| Oil Companies | - General and Specialized Purchasing Lists |
| | - Industry Trade Directories |

Given the extent of external efforts to enumerate and catalogue small businesses there is little need for IBDS to play a central role in maintaining a registry of Indian businesses.

Recommendation:

We recommend that IBDS pursue an active facilitating role to ensure that its clients are made aware of and avail themselves of opportunities for registry in corporate and/or government purchasing and advertisement lists. This implies that IBDS maintains

active knowledge of the existence of and criteria for inclusion in such registries and lists.

Assistance with External Services

Question: Has the Corporation been effective in engaging, co-ordinating and making provision for professional services to Indians and Indian businesses? (Objective 7, Articles of Association).

Finding: The Corporation does not take an active, direct role in arranging for the delivery of external professional services on its client's behalf. We concur with the Corporation that it should not be their role to act as contractual agents on behalf of their clients, since such a role may involve conflicts of interest.

The Corporation encourages the client to take on these responsibilities under their guidance and advice. We concur with this approach as long as the client is made aware of and knowledgeable in the terms and obligations attached to professional services contracts and regulatory requirements as well as methods for seeking and assessing professional service proposals.

Economic Opportunities Identification and Communication

Question: Has the Corporation effectively identified, enumerated, evaluated and characterized economic development opportunities which are now available or will be available in the Province of Alberta? (Objective 2, Articles of Association)

Has the Corporation effectively communicated and advised Indians, either as individuals or corporations,

as to business opportunities? (Objective 5a, Articles of Association)

Findings: The Corporation has operated primarily in response in client requests for assistance and has been relatively inactive over the evaluation period in the proactive identification and analysis of business opportunities which would be suited to Indian enterprise development. We believe that this objective remains valid and that a particular need exists for comprehensive identification and realistic assessment of small business opportunities, particularly off reserves, in advance of, and in encouragement to, client enquiries. This effort must be tied to effective client communications.

Analysis: We were advised by IBDS management that proactive business opportunity identification on a broad and comprehensive basis had been considered but was given a lower priority, given budget constraints, than direct client services. We are also advised that during the first two years of IBDS operation the identification and analysis of business opportunities was the Corporation's key objective. IBDS reports that this effort produced little or no positive results for the Indian people and was therefore given a lower priority. The reasons for this lack of effect are unclear but it is the consultant's belief that execution of this role under a provincial mandate could result in increased diversification and development of Indian businesses. A number of agencies are currently active in this field: regional development councils, local chambers of commerce, Alberta Small Business, Band Economic Development officers, and DIAND Economic Development officers. At present however there is no easily accessible consolidation of business or contract opportunities suitable to Indian enterprises to which a

prospective or existing businessperson can refer. Achievement of such a consolidation by IBDS would significantly enhance its public profile as a proponent of Indian business and would likely generate increasing demands on its services. Fulfillment of these demands would require augmentation of the Corporation's resources.

Recommendation:

We recommend that the IBDS Board consider implementation of a proactive stance with respect to business opportunities identification and that suitable incremental funds be put in place by DIAND to support this function (1 person-year).

We also recommend that IBDS produce a monthly or quarterly newsletter highlighting Indian small business successes and opportunities as well as the services and activities of the Corporation and other assistance agencies (incremental funds for the physical production and distribution of such a newsletter would be required).

3.2.2 Efficiency

Question: Is the Corporation operated in an efficient and cost-effective manner?

Findings: Project officers are competitively paid and are working at or near capacity caseloads.

Travel costs appear to be reasonable and consistent with expected levels of field activity. The President's travel cost is consistent with a high level of field activity.

Administrative overhead costs are high relative to other similar programs. This higher level can be attributed to significantly greater administrative salaries and Presidential remuneration. The benefit burden for the Corporation is somewhat higher, as a percentage of salary, than contemporary standards (9.5% versus 7%).

In general, the Corporation is run in an efficient and cost-effective manner. Some leeway exists for further cost savings in the President's honorarium, in the benefits package and in employee parking (\$4,220 in 1984).

Analysis: The efficiency of an organization is determined by comparison of its outputs or achievements to the inputs consumed, be they measured in terms of budget dollars, labour or time.

There are a number of aggregate indicators which are often used to measure the efficiency and performance of government programs. These include such measures as dollars expended per job created, administrative overhead as a percentage of total program funds, or more specific measures of the quantity or quality of the good or service provided for a given cost.

In the instance of IBDS, we find that there are few appropriate independent references for detailed comparison to the Corporation. We investigated several related agencies in Alberta including FBDB, Alberta Opportunity Company, BANAC, Alberta Small Business, and DIAND Economic Development and found that either data were not available or the services provided were so different as to make comparison invalid. We therefore have taken an alternative approach in which

we assess costs and productivity against some relevant external norms and provide comparative estimates of cost per job created from previous evaluations we have conducted.

This analysis has been conducted with the recognition that it is ultimately the right and obligation of the shareholders and Board of IBDS to make judgements on cost-effective use of funds and labour. Our analysis deals with:

- o project manager workloads;
- o travel costs;
- o administrative overhead costs;
- o salary ranges;
- o benefit burden;
- o President's compensation;
- o cost per job.

Project Manager Workloads

Exhibit 3.14 presents an analysis of project manager workloads based on client progression by Phase for 1984/85. In Case A, eight files were selected for review. These data indicate a workload over double the time a project manager has available. However, this sample did not represent the typical client mix, as the simpler projects such as trucking and hauling were underrepresented. Case B is based on the consultants' judgement as desirable time consumptions by phase and the mix of projects on hand.

Exhibit 3.14. Analysis of Project Manager Workloads

A. Based on Selected Files

Phase	Clients	Phase (Days)	Days by Phase	Days Consumed
I	117	0.5	0.5	58.5
II	97	5.8	6.3	611.1
III	38	5.1	11.4	433.0
IV	7	2.6	14.0	98.0
V	<u>13</u>	1.3	15.3	<u>198.9</u>
	272			1399.4 Days

B. Based on Desirable Averages

I	117	0.25	0.25	29.3
II	97	2.0	2.25	218.3
III	38	3.0	5.25	199.5
IV	7	1.5	6.75	47.3
V	<u>13</u>	2.0	8.75	<u>113.8</u>
	272			608.2 Days

Total days available:

3 project managers x 220 days/year = 660 days
minus 10% administrative time = 600 days

These data indicate that project managers may currently be working at 100% capacity with no allocation for travel time or attention to ongoing operational clients.

Travel Costs

Total travel costs are budgeted at about \$55,500 per annum (including President's travel) or about 14% of total expenses.

Project managers currently receive approximately \$800 per month for travel. This amount is used to support four trips per month (2 days per trip) or \$200 per trip (perhaps 400 km @ \$0.25/km and \$100 food, overnight and incidentals). We find this budget to be within acceptable bounds and note that one project manager possesses a commercial pilot's licence which allows him to service remote reserves in a cost and time efficient manner.

The General Manager and Operations Manager together have budget allotments of \$17,000 per annum for travel. This budget can support fifty two-day trips (@ \$100 food and overnight) at approximately 900 km per trip. This implies that each individual travels two days per week every second week. We find this allocation to be within acceptable bounds.

The President's travel budget is \$10,000 per annum, equivalent to 40 two-day trips at 600 km per trip. This amount is not inconsistent with an active President's role in visiting all Bands in the year and travelling to the Edmonton office once every two weeks. Actual presidential travel expenses in 1984/85 were approximately \$7,500.

Administrative Overhead Costs

Administrative overhead for the purposes of this analysis is deemed to include administrative salaries, Board honoraria and travel and the President's honorarium and travel. These costs

totalled \$181,311 in 1982/83 (41% of expenses) and \$131,219, after cost reductions, in 1984/85 (35% of expenses). These data are compared with a similar figure for AIADC (1985) of \$151,512. Given that AIADC administration supports nine farm advisory staff and one training coordinator, we believe that there is substantial capability for existing IBDS administration to support increased field staff loads. At present, approximately 50% of the IBDS General Manager's time is spent on Band consulting and not administration.

Salary Ranges

We have compared staff salaries to median salaries for similar positions reported in the "Alberta Pay and Benefits" (Alberta Bureau of Statistics) 1985.

IBDS Staff Position	Reference Group	Salary Relative to Median of Reference
General Manager	General Manager, Small Firm (1-19 employees)	1.25
Operations Manager	Manager, Administration (1-19 employees)	1.12
Project Manager	Credit Officer	1.13
Bookkeeper	Clerk, Accounting Records	0.74
Secretary/Receptionist	Junior Secretary	0.65

The data indicate that relative to the standards used salaries of senior people exceed the median of the reference group while those of lower office staff are substantially lower than the population at large. The potential savings associated with any salary adjustments are treated in Section 6.4 which discusses merger of IBDS and IEF.

Benefit Burden

Benefits at present total 9.5% of salaries. This is relatively high by Alberta small industry standards where benefits generally run at 7% of salaries. The benefit package at IBDS does however include an attractive employer/employee RRSP contribution plan.

President's Compensation

The President's official per diem honorarium is \$100 per day as per the Articles of Association. In lieu of salary the President is currently being compensated at \$100 per day times 300 days = \$30,000 (approximately). Exhibit 3.14 presents the expenditures for honoria and travel over the evaluation period. The president's office activities have generally amounted to two days per week maximum. Assuming: 2 days/week @ \$150/day, 45 active weeks per year, travel @ 600 km/week @ \$0.25/km and expenses @ \$175/week, the estimated cost of an active executive officer is \$28,125 per annum, a \$9,800 saving over 1984/85 costs.

Exhibit 3.14. President's Honorarium and Travel.

	Honorarium	Travel	Total
1980/81	\$ 22,975	\$ 11,529	\$ 34,502
1981/82	30,300	13,341	43,641
1982/83	30,400	17,060	47,460
1983/84	30,300	20,912	51,212
1984/85	30,300	7,656	37,956

Cost Per Job

DIAND's annual contribution to IBDS is \$325,000. IBDS has been successful in recent years in assisting in the start-up of an average of approximately 20 businesses. These businesses employ an average of around 2.5 persons for a total of 50 jobs.

Making allowance for part-time and seasonal employment we judge that in the order of 35 full-time equivalent positions are created per annum. Assuming that 60% of IBDS businesses stay in continuous operation provides a cost per full-time equivalent continuing job of \$15,476. We compare this to a number of recent similar estimates from evaluations conducted by DPA:

B.C. Special ARDA	\$13,500
Sask. Special ARDA	\$12,000
Yukon Special ARDA	\$14,000
N.W.T. Special ARDA	\$23,900
DIAND IEDF	\$21,700

3.2.3 Policies, Procedures and Controls

Question: Has the Corporation implemented appropriate policies and procedures to effectively monitor activities and control costs?

Finding: IBDS has developed and implemented policies, procedures and controls which provide effective monitoring of administrative, financial and program delivery functions.

Analysis: The operations manual provides general information on the Corporation, its relationship with IEF, history and background on Alberta Indian Reserves, job descriptions, organizational structure, a description of project phases (checklist), as well as a list of "do's and don'ts" and reporting forms.

The administrative manual covers all aspects of the Corporation's administration including job descriptions, financial and project reporting, program development strategy, IEF relationship, personnel policies, financial

accountability and accounting procedures, and office procedures.

Appropriate forms, data base structures, approvals, journals, ledgers and disbursements verification records are maintained and audited on an annual basis. Budgets are reviewed against annual expenditures on an ongoing basis.

A well organized filing system exists for accounting, central administration, and client project files by Phase.

The consultants reviewed these systems and procedures and found that they were fully implemented and well maintained. Internal control exists at a very high level.

SECTION 4.0

4.0 INDIAN EQUITY FOUNDATION

4.1 Organizational Profile

4.1.1 History

The Indian Equity Foundation was formed in November 1976 as a non-profit corporation under the Alberta Companies Act and is a registered charitable organization under the Income Tax Act. It is owned by the Treaty Indians of Alberta, through the Indian Association of Alberta and is controlled by an elected, independent Board of Directors. The Foundation was referenced for creation along with the Indian Oil Sands Economic Development Corporation in Attachment "A" to the Syncrude Agreement. Provision was made for \$100,000 per annum operational support to the Foundation for five years with an additional five years funding pending approval of the Minister of Indian Affairs. The Syncrude Agreement specified an initial capitalization of \$1,000,000 in two five-hundred thousand dollar installments.

The IEF and IOSEDC were established as independent but complementary organizations. The role of IOSEDC was to develop small businesses to the point of financing at which time applications for equity financing could be made to IEF.

The first fiscal year of operation for IEF, 1976-77, consisted of little more than some basic organizational activity. An Executive Director was not appointed until July 1977 and the position was again vacant for six months in 1978. During the first two years, only 15 clients had been assisted for a total of \$130,000 in equity funds, virtually all of these expenditures made in the last half of the second year. During this period, relationships with IBDS were strained. After November 1978, the Foundation improved its organizational capacity and relations with IBDS were also improved. To quote from the previous evaluation:

"In addition, working relationships with the Indian Oil Sands Economic Development Corporation have improved immensely through the co-operative efforts of management within both organizations. The research, development and follow-up services provided by the Corporation have greatly assisted the Foundation in the identification of clients, financing sources, contract opportunities and follow-up services, and this tends to increase the capacity of the Foundation without the obvious duplication of staffing services. The initial lack of cooperative effort between the two organizations initiated discussions of amalgamation between the respective Boards and their single shareholder, the Indian Association of Alberta. In May of 1979, this issue was discussed and a one year trial period was set to assess an improvement in relations between the organizations. There was a reluctance to unite the funding capability with the project development services as it was deemed that such a relationship could ultimately result in a deterioration of objectivity and control. This resulted in the one year delay period which proved to be sufficient to settle the differences between the two organizations. (p. 43 P.M. Associates).

Following submission of the 1980 evaluation, operating funds were authorized to be provided for the remaining five years of the Syncrude Agreement from the DIAND Alberta Region budget.

The evaluation of 1980 recommended the two organizations remain separate but the issue was raised again in November 1983 at the IBDS Shareholders Meeting. IBDS subsequently prepared a report supporting the merger of administrative functions but the

maintenance of separate entities so as not to affect IEF's status as a charitable organization. The recommendation did not receive the support of the IEF Board of Directors.

The Foundation is much like a small bank which provides seed capital to assist Treaty Indians develop small businesses and thereby participate in Alberta's future economic growth. Originally, it was intended that the Foundation would provide outright grants and contributions. An early decision of the Board however was to make all disbursements from the Foundation as interest free repayable loans. This decision was based on:

- o the desire to sustain the capital fund on a replenishing basis.
- o the desire to encourage business-like attitudes amongst recipients.
- o the desire to retain advantageous terms for worthy recipients.

The Foundation will provide, as an interest-free loan, up to 20% of the required capital, but it is their objective to attract as much of the remaining financing as possible from the private sector. By involving the banks and finance companies, the intent is to gain independence from government programs as their only source of economic development funding.

Since the Foundation assumes a creditor position inferior to other lenders, its loans are generally viewed as equity.

From inception to April 30, 1985, 154 business ventures have been supported, creating a total of 348 jobs. The total funding accessed for the Indian community in Alberta over this time period has been \$11.7 million.

4.1.2 Mandate and Objectives

IEF's broad mandate is to assist in the development of Indian enterprises and businesses for Treaty Indians in the Province of Alberta by providing initial seed money. Its five objectives are:

- 1) to operate exclusively as a non-profit corporation, to administer and employ its property, assets and rights for the sole purpose of promoting or aiding in the promotion and development of Indian-owned enterprises and businesses within the Province of Alberta;
- 2) to create, provide and enlarge a fund to be used for the benefit and promotion of Indian people in the establishment and development of Indian businesses within the Province of Alberta;
- 3) to receive property by way of donation, gifts, testamentary disposition, deed of trust or any other form of contribution;
- 4) to apply the income and capital of the Company or part thereof as may be decided by the Directors, for the benefit and promotion of Indian people in the establishment and development of Indian businesses;
- 5) to provide equity capital in the form of grants, contributions and loans, with or without conditions, to Indians and Indian businesses who have developed business opportunities through his or their own efforts; through the assistance of the Indian Oil Sands Economic Development Corporation Ltd., through any Federal or Provincial Department, agency or body; or through any company, institutions, agency of whatever nature and kind.

4.1.3 Organizational Structure

The organizational structure of IEF is shown in Exhibit 4.1. The shares are held in trust by the Indian Association of Alberta. Two shares of the Foundation have been issued, one held by the IAA and the other by Walter Twinn, Sawridge Band.

The Board of Directors has 5 members, one representative from each treaty area, one representative from the private sector and one from the federal government (whose term is expiring in March 1986).

4.1.4 Activities

In acting as a small bank, the Foundation reviews loan applications received, completes credit checks and other verifications as required and makes a decision on whether they will fund the particular project. The maximum financing available to any one project is \$50,000. Approval authorization is as follows:

Up to \$10,000	Executive Director (General Manager in lieu)
\$10,000 - \$25,000	Two Directors
Over \$25,000	Board of Directors

Directors meet every four to six weeks to review equity fund applications.

On approval of a satisfactory application which demonstrates evidence of viability and other financial requirements, the Foundation prepares a financing agreement and other necessary documentation as may be required to maintain adequate security and to ensure the overall intent and success of a given project. These agreements include such items as the following:

Exhibit 4.1

**Indian Equity Foundation
Organizational Structure**

Shareholders

Indian Association of Alberta



Board of Directors

Fred Gladstone, President, Blood
Louis Halfe, Vice-President, DIAND*
Sam Bull, Goldfish Lake
Peter Joyce, Treaty 8
Douglas Hingley, Syncrude, Ft. McMurray



General Manager

Michael Cheeks



Management Trainee

Manager of Administration



Receptionist/Administrative Clerk

*expired March 1986

1. Adequate definitions of both a general and specific nature as may apply to the project.
2. The form of financing including the amount to be paid by the Foundation, the repayment terms and the security to be held.
3. Conditions precedent such as evidence of debt financing, written receipt of any pertinent agreements and/or corporate information and delivery of the promissory note. Other conditions will be added as required.
4. Methods for disbursement of funds.
5. Representatives and warranties of the applicants including such items as: legal disabilities, actions, suits, etc.; verification that the client(s) is/are an Indian business; that funds will be utilized for the purposes intended; that the client(s) will retain proper financial and legal services as per the Foundation's requirements, etc.
6. Covenants of Applicants to provide financial statements and other items as may be required.
7. Termination clauses.
8. Other required items.

The above documentation forms the basis of an agreement between the parties in accordance with the approval policy of the Foundation. In addition, such agreements provide a security file for each approved applicant, such files containing additional information on other financing agreements, disbursements,

guarantees, etc. Naturally, the Foundation maintains a subordinated position to other lenders as a means to encouraging their investment in acceptable projects.

Initially the Foundation required only annual repayments on a loan but had a high write-off ratio. More recently it has changed its requirements to a monthly repayment schedule. This not only reduces some of the bad debts write-off problem but it also encourages more fiscal responsibility by its clients.

The Foundation's activity in terms of loan applications, by treaty area, since inception is shown in Exhibit 4.2. Activities over the evaluation period are summarized in Exhibits 4.3 and 4.4. Noteworthy points with respect to the Exhibits are as follows:

- o Loan applications have been somewhat sporadic over the years likely reflecting economic conditions for small business in Alberta over the evaluation period. The average value of authorized loans appears to vary with economic conditions as well (i.e. smaller projects in recessionary times).
- o The percentage of loan value applied for which has been authorized has varied from 42.0% to 87.9%. Given the availability of money within the Equity Fund, these percentages indicate a critical and/or conservative approach to lending.
- o Total project financing associated with 95 IEF loan projects totals \$6.81 million over the five years reviewed. Total IEF lending over the same period is \$1.00 million or 14.7% of total financing.
- o Treaty Area 8 has historically accounted for the largest number of project applicants (47%, 1981-85) and loans authorized (48%, 1981-85). Treaty 8 loans

Exhibit 4.2**Indian Equity Foundation
Breakdown of Accounts
(1976 to September 1985)**

Treaty Area	Approved			Total Approved	Total Declined	Total Withdrawn
	Active*	Paid	Written-off			
6	17	16	24	57	4	9
7	15	8	7	30	6	7
8	27	19	14	60	9	16
Other	4	1	8	13	4	4
TOTALS	63	44	53	160	23	36

* Includes accounts which are current or in arrears as of September 1985.

Source: IEF account data sheets to the end of August 1985.

Exhibit 4.3**IEF Activities
(by Calendar Year 1981 to 1985)**

Activity Measure	Total	1981	1982	1983	1984	1985*
# Applicants	147	28	13	21	36	49
# Loans Authorized	95	20	11	14	22	28
# Loans Declined/or Withdrawn	44	7	3	5	13	16
\$ Total Funds IEF Applied For	1,810,311	238,464	107,362	252,899	703,281	508,305
\$ Total Value of IEF Loans Authorized	1,002,237	100,210	96,208	163,300	347,077	295,442
\$ Average Value Authorized	10,550	5,011	8,746	11,664	15,776	10,552
% Authorized (re \$ value)	55.36	42.02	87.97	64.18	49.35	58.12
\$ Total Project Financing (Authorized)	6,815,076	766,725	248,990	1,108,679	3,333,221	1,357,461
\$ Average Total Financing per Project (Authorized)	71,738	38,836	22,635	79,191	151,510	48,481
IEF Component % (IEF/Total Project)	14.7	13.1	38.6	14.7	10.4	21.8

Source: Summary data provided by IEF; status as of December 31, 1985).

Exhibit 4.4**IEF Activities (by Treaty and Source of Application 1981-1985)**

	<u>Treaty</u>			<u>Others</u>	<u>Total</u>
	<u>6</u>	<u>7</u>	<u>8</u>		
Applicants	25	19	48	10	102
Loans IEF Authorized	18	15	36	6	75
\$ Total Value IEF Authorized	211,110	162,579	315,219	84,492	773,400
\$ Average Value	11,728.3	10,838.6	8,756.1	14,082	

Applicants by Source of Application:

IDBS	75
Applicant	16
Band	3
DIAND	<u>8</u>
	102

Source: IEF account data sheets to the end of August 1985.

however have, on average, been significantly smaller than those issued in Treaty Areas 6 and 7.

- o Over the evaluation period, applications put forward with IBDS assistance have accounted for 75% of all applications received by IEF.

4.1.5 Revenue and Expenditures

Financial reporting of IEF is divided into two primary accounts: the operating fund, to which administrative costs are charged, and the equity fund, within which the loan fund capitalization resides. Exhibits 4.5 and 4.6 summarize key information from IEF Financial Statements. Information on the pre-evaluation period is provided as background to the present financial position of the Foundation. The following points are worthy of note with respect to Exhibits 4.5 and 4.6.

- o The Foundation has generally received \$100,000 per annum for operations from DIAND, Alberta Region. The exceptions are 1982 when funds were augmented and 1983 when no grant was issued (the reason given for withholding the 1983 grant was a priority for fund use elsewhere and the apparent liquidity of the Foundation based on its accumulated surplus).
- o The equity fund has been capitalized with four major injections: two \$650,000 contributions each comprised of \$500,000 from DIAND and \$150,000 from Syncrude Ltd.; a transfer of \$100,000 from operating surplus in 1977, and a \$600,000 contribution from the Western Economic Development Initiative Program in 1982.
- o Since 1979 (with the exception of 1982), expenses have exceeded the DIAND operating grant. With the slow

Exhibit 4.5**IEF Financial Statements - Key Information (1977 to 1980)**

	For the Year Ended (October)			
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
OPERATING FUND:				
Revenues:				
Operating Grants from DIAND	100,000	100,000	100,000	100,000
Interest and Other Income	47,392	61,514	116,720	120,871
Total	147,392	161,514	216,720	220,871
EXPENSES:				
	28,162	95,935	107,427	116,166
EXCESS REVENUE:				
Excess (Deficiency) Revenue				
Over Expenses	119,230	65,579	109,293	104,705
Transfers to Equity Fund	100,000	0	0	0
Net Excess After Transfer	19,230	0	0	0
Accumulated Excess Revenue				
(end of year)	19,230	84,809	194,102	298,807
EQUITY FUND:				
Capital, Beginning of Year	0	750,000	737,000	1,280,000
Contributions Received	650,000	0	650,000	0
Transfers Received	100,000	0	0	0
Interest Income	0	0	0	0
Recovery of Loan	0	0	0	0
Current Years Provision for				
Possible Losses	0	13,000	107,000	60,000
Capital, End of Year	750,000	737,000	1,280,000	1,220,000
LOAN ACTIVITY:				
Subordinated Loans Outstanding				
(beginning of year)		116,970	475,520	713,069
New Loans Issued During the Year		129,970	465,550	297,549
Loan Repayments Received				
During the Year			n.r.	
Recovery of Amounts Previously				
Written Off			n.r.	
Loans Written Off During the Year			n.r.	
Loans Outstanding (end of year)	0	475,520	713,069	n.a.
Unexpended Equity Funds	750,000	620,030	804,480	506,931
OPERATING FUND WORKING CAPITAL:				
	16,319	78,211	184,368	389,503

n.a. = not available

n.r. = not reported

Source: IEF Annual Audited Financial Statements

Exhibit 4.6**IEF Financial Statements - Key Information (1981 to 1985)**

	<u>1981</u>	<u>For the Year Ended (October)</u>			
		<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
OPERATING FUND:					
Revenues:					
Operating Grants from DIAND	100,000	152,500	0	100,000	103,000
Interest and Other Income	139,544	221,879	161,998	3,911	4,105
Special Grant					47,227
Total	239,544	374,379	161,998	103,911	154,332
EXPENSES:	119,730	135,819	142,407	129,908	202,004
EXCESS REVENUE:					
Excess (Deficiency) Revenue					
Over Expenses	119,814	238,560	19,591	(25,997)	(47,672)
Transfers to Equity Fund	0	0	0	0	0
Net Excess After Transfer	0	0	0	0	0
Accumulated Excess Revenue (end of year)	418,621	657,181	676,772	650,775	603,103
EQUITY FUND:					
Capital, Beginning of Year	1,220,000	1,140,000	1,647,648	1,595,496	1,527,817
Contributions Received	0	600,000	0	0	0
Transfers Received	0	0	0	0	0
Interest Income	0	0	0	161,255	168,374
Recovery of Loan	0	0	0	0	11,924
Current Years Provision for Possible Losses	80,000	92,352	52,152	228,934	29,327
Capital, End of Year	1,140,000	1,647,648	1,595,496	1,527,817	1,678,788
LOAN ACTIVITY:					
Subordinated Loans Outstanding					
(beginning of year)	800,309	727,720	651,783	527,997	711,405
New Loans Issued During the Year	176,551	86,009	103,648	409,977	172,632
Loan Repayments Received					
During the Year	(184,159)	(77,172)	(126,415)	(114,221)	(147,808)
Recovery of Amounts Previously Written Off	3,005	7,127	10,613	1,200	11,926
Loans Written Off During the Year	(67,986)	(91,901)	(111,632)	(113,548)	(14,525)
Loans Outstanding (end of year)	727,720	651,783	527,997	711,405	733,630
Unexpended Equity Funds	514,539	1,105,702	1,128,469	n.a.	n.a.
OPERATING FUND WORKING CAPITAL:	410,912	648,823	670,315	n.a.	n.a.

n.a. = not available

Source: IEF Annual Audited Financial Statements

start-up of the Foundation and accrual of substantial interest, the Foundation entered the evaluation period with about \$300,000 in accumulated excess revenue and a capital fund of \$1.22 million.

- o In 1984 the Board of Directors made a significant accounting decision to report interest income from the equity fund (primarily from investment of unexpended loan funds) as accruing to the equity fund. Thus, the operating deficit (which peaked at \$47,672 in 1985) was clearly evidenced in the financial statements.
- o Less than half of the equity fund is currently distributed in the form of subordinated loans.
- o Over the evaluation period loan payments received equal almost \$650,000 compared with new loan issuances totalling about \$950,000 and write-offs totalling nearly \$400,000. Interest accrual from undistributed loan funds has more than compensated for write-off losses thus allowing the capital fund to be stable while at the same time covering the deficit on operations.

Exhibit 4.7 provides further detail on the expense side. These are highlighted below:

- o Travel costs and Directors' honoraria and expenses have risen substantially in recent years primarily related to development of a funding proposal to the Native Economic Development Program (NEDP).
- o Overhead costs have risen primarily as a result of office lease cost increases.

Exhibit 4.7

IEF Revenues and Expenses (1981 to 1985)

	For the Year Ended (October)									
	1981		1982		1983		1984		1985	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
REVENUE:										
Operating Grants	100,000		152,500		0		100,000		103,000	
Interest and Other Income	139,544		221,879		161,998		3,911		4,105	
Special Grants ²									47,227	
Total	239,544		374,379		161,998		103,911		154,332	
EXPENSES:										
Overhead:										
Depreciation	3,352		3,630		3,284		1,689		3,578	
Interest on Lease Obligation	1,068		761		455		0		104	
Miscellaneous	1,158		1,855		3,292		2,492		3,497	
Office	20,698		19,159		19,637		23,129		28,300	
Professional Fees ¹	5,675		5,845		9,750		14,207		44,531	
Total Overhead	31,951	26.7%	31,250	23.0%	36,418	25.6%	41,517	32.0%	80,010	26.7%
Salaries and Benefits	79,396	66.3%	98,972	72.9%	94,270	66.2%	73,423	56.5%	99,287	59.6%
Travel	5,654	4.7%	3,960	2.9%	4,978	3.5%	7,473	5.8%	9,365	5.6%
Directors' Honoraria and Expenses	2,729	2.3%	1,637	1.2%	6,741	4.7%	7,495	5.8%	13,342	8.0%
Total Expenses	119,730	100.0%	135,819	100.0%	142,407	100.0%	129,908	100.0%	202,004	100.0%
% Change (Year-to-Year)	+3.1%		+13.4%		+4.9%		-8.8%		+28.2%	

¹ 1985 includes research and feasibility assessment (\$33,750) and collection fees (\$1,728)

² 1985 includes special grant of \$47,227 from DIAND for business plan development

4.2 Performance Assessment - Findings and Recommendations

The performance of IEF over the evaluation period has been assessed in terms of effectiveness, efficiency and implementation of proper policies, procedures and controls.

4.2.1 Effectiveness

We have evaluated the effectiveness of IEF by analyzing the degree to which the corporation has been successful in achieving its corporate objectives as stated in Section 4.1.2. In reviewing objectives achievement, we have focused our analysis on the following key topics:

- o Fund Maintenance and Enlargement
- o Loan Disbursement and Business Development
- o Funding Leverage

We recognize that the Board and management of IEF have implemented a number of policy changes which have had significant effects on the performance and public profile of the corporation. Notably these have been to issue repayable no-interest loans rather than grants and to increase enforcement of collection in recent years.

Fund Maintenance and Enlargement

Question: Has the corporation been effective in maintaining and enlarging its loan fund? (Objectives 2 and 3, Articles of Association)

Findings: We find that the corporation has not sought to receive corporate or private donations as was intended in its inception. No contributions have been received over

the evaluation period other than a special federal government allotment of \$600,000 in 1982.

Over the last two years the Board of IEF has been active in seeking additional funding from the Native Economic Development Program (Department of Regional Industrial Expansion) to establish an expanded loan and investment corporation which could assume an equity position in businesses assisted and which would provide business development assistance on a regional basis. As of Spring 1986 no decision has been made on the proposed funding.

Between 1981 and 1983, the capital base of the equity fund (net of the above-mentioned \$600,000) was being eroded as interest was allocated to operating working capital. Since 1983, interest income has been allocated to the loan fund and has exceeded loan write-offs. We find that, under current accounting practices, the loan fund is capable of sustaining itself or growing slightly. This appears to be achievable only under conditions where no more than one-half of the equity fund is allocated to loans (given current write-off levels).

We find therefore that the corporation has been prudent in its management of the fund so as to sustain the funds.

Analysis: The following analysis is based on information provided in Exhibits 4.5 and 4.6. The Indian Equity Foundation's equity fund does not bear interest on loans. The fund can therefore sustain itself only if interest on unexpected funds equals or exceeds loan losses (write-offs). Between 1981 and 1985, total interest on unexpended loan funds and working capital (\$861,066)

significantly exceeded loan write-offs (\$399,592) thus permitting potential growth of the corporation's capital base. However, if one nets out a \$600,000 contribution received in 1982, it is evident that between 1981 and 1984, the capital base of the loan fund was declining, primarily due to interest accruing to operating fund working capital. In 1984, the decision was made to allocate term deposits and interest income in respect of funds which are not currently required for operations to the equity fund. Under these conditions, interest income to the equity fund in 1984 and 1985 has exceeded loan losses, leading to an increase in capital. The operating deficit of IEF is hence covered by draws on accumulated excess revenue.

Recommendation:

We recommend that the Board of IEF consider implementation of fund raising activities, particularly at the industry corporate level to augment the equity fund and increase the Foundation's profile.

Loan Disbursement and Business Development

Question: Has the corporation utilized the equity fund prudently and wisely in the issuance of loans to further the objective of promoting and developing Indian businesses in Alberta? (Objectives 1, 4, 5, Articles of Association)

Findings: We find that loan loss rates at IEF are three to four times higher than for general population development oriented financial institutions (FBDB, Alberta Opportunity Co.) in Canada.

We find that the proportion of accounts that are current in the total IEF portfolio is significantly better

than in the Alberta Region total IEDF portfolio. For loans issued between 1981 and 1985, the proportion of current accounts in these funds is similar.

We find that over the 1978 to 1985 period, there is little difference in the performance (as measured by the percentage of accounts written off or in arrears) of IEF loan accounts amongst originators of the loan applications.

We find that over the 1981 to 1985 period, a significantly greater proportion of IBDS-originated IEF accounts were written off or in arrears when compared to non-IBDS accounts. We note however that IEF accepted a greater proportion of IBDS accounts than non-IBDS accounts.

We find that the distribution of IEF loan accounts (1981-85) amongst Treaty Areas reflects historical levels of activity which are oriented to Treaty 8.

We find that loan monitoring and account counselling activities of IEF are constrained by a lack of field personnel. Some reallocation of time from other activities of the General Manager and Administrative Assistant to field activities may be possible given loan accounting and assessment loads.

We find that the funding leverage attached to IEF loans is broadly based and effectively introducing clients to commercial lending.

Analysis: Loan Losses

The effective use of the equity fund hinges on a balance between the desire to support Indian business

development and the desire to sustain the fund by minimizing loan losses. Exhibits 4.5, 4.6 and 4.8 present a summary of loan activity for the Foundation for the period since its inception and/or the period of the evaluation. The Foundation, through the Board, has authorized approximately 75% of loan applications received. Over the period since its inception, IEF has experienced a 31.5% write-off (by value) of its loan accounts. Annual write-offs rose steadily from 1981 to 1984, in part likely due to the 1981 to 1983 recession in Alberta. Provisions for loss have averaged 14.1% of loans outstanding over the evaluation period. Provision for loss at the Federal Business Development Bank between 1981 and 1984 varied from 3.0% to 4.8% (all Canada) and from 2.0% to 4.8% (Alberta) for the Alberta Opportunity Company. Clearly expected loan losses at the Foundation are significantly above population norms. We do note, however, by way of comparison that the performance of the actual IEF loan portfolio (24.8% of 161 accounts current) is significantly better than has been indicated for the Alberta IEDF portfolio (13.9% of 533 accounts). Over the period from 1981-1985, this comparison is much closer (IEF approximately 45% current versus IEDF approximately 50% current).

Loan Status by Originator of Application

Exhibits 4.9 and 4.10 indicate the status of IEF loan accounts broken down by the originator of the loan application for both the complete period of activity (1981-1985) and the evaluation period. The following points are noteworthy:

Exhibit 4.8**IEF Loan Activity**

	1977-85 ¹	1981-85 ²
Total number of applications	220	147
Total funds applied for	\$2.68 million	\$1.81 million
Number of projects funded	161	95
Total funds loaned	\$1.75 million	\$1.00 million
Average loan	\$10,893	\$10,550
<u>Loan Status</u>	<u>\$million</u>	<u>%</u>
Written off	\$0.551	31.5
Delinquent	0.414	23.6
Current	0.551	31.4
Paid	<u>0.237</u>	<u>13.5</u>
Total	1.753	100.0%

¹ Source: IEF Business Plan 1986-1996. Data cited are for the period August 1977 to March 1985.

² Source: Exhibit 4.3. Calendar years 1981 to 1985.

Exhibit 4.9

Status of IEF Loans
Issued 1981 - 1985

Source of Application	Active Accounts		Closed Accounts		Declined	Withdrawn	Total Submitted	Total Authorized
	Current	Delinquent	Paid	Written-Off				
IBDS	25	12	14	7	8	9	75	58
Applicant	6	1	2	0	4	3	16	
Band	1	0	1	0	0	1	3	
DIAND	<u>3</u>	<u>1</u>	<u>2</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>8</u>	
Sub-Total (Non-IBDS)	10	2	5	0	6	4	27	17
TOTAL (numbers)	35	14	19	7	14	13	102	75

Status as a Percentage
of Total by Source

IBDS	33	16	19	9	11	12	100	77
Applicant	38	6	13	0	25	19	100	
Band	33	0	33	0	0	33	100	
DIAND	<u>38</u>	<u>13</u>	<u>25</u>	<u>0</u>	<u>25</u>	<u>0</u>	<u>100</u>	
Sub-Total (Non-IBDS)	37	7	19	0	22	15	100	23
TOTAL (percentage)	34	14	19	7	14	13	100	100

* Percentages may not add to 100% due to rounding. Delinquency is defined as 90 days or more in arrears.
Source: IEF account data sheets to the end of August, 1985.

Exhibit 4.10

**Status of IEF Loans
Issued 1978 - 1985**

Source of Application	Active Accounts		Closed Accounts		Declined	Withdrawn	Total Submitted	Total Authorized
	Current	Delinquent	Paid	Written-Off				
IBDS	27	14	20	25	16	15	117	86
Applicant	7	4	9	11	5	10	46	
Band	2	2	3	10	0	6	23	
DIAND	<u>4</u>	<u>3</u>	<u>13</u>	<u>7</u>	<u>3</u>	<u>6</u>	<u>36</u>	
Sub-Total (Non-IBDS)	13	9	25	28	8	22	105	75
TOTAL (numbers)	40	23	45	53	24	37	222	161
Status as a Percentage of Total by Source								
IBDS	23	12	17	21	14	13	100	53
Applicant	15	9	20	24	11	22	100	
Band	9	9	13	43	0	26	100	
DIAND	<u>11</u>	<u>8</u>	<u>36</u>	<u>19</u>	<u>8</u>	<u>17</u>	<u>100</u>	
Sub-Total (Non-IBDS)	12	9	24	27	8	21	100	47
TOTAL (percentage)	18	10	20	24	11	17	100	100

* Percentages may not add to 100% due to rounding. Delinquency is defined as 90 days or more in arrears.
Source: IEF account data sheets to the end of August, 1985.

- o IBDS between 1981 and 1985 accounted for 77% of loans authorized and 73% of loan applications received.
- o Over the 1981 to 1985 period, the proportion of IBDS originated accounts which are current (33%) is slightly less than non-IBDS accounts (37%).
- o Over the complete period, 1978 to 1985, the proportion of IBDS originated accounts which are current is substantially greater (23%) than non-IBDS accounts (12%).
- o Overall, the proportion of IBDS originated accounts which are either delinquent or written off (33%, 1978-1985; 25%, 1981-1985) is similar to proportions for non-IBDS accounts (36%) over the 1978 to 1985 period but substantially greater than non-IBDS accounts (7%) over the 1981-85 period. It is notable however that the acceptance rate of IBDS accounts between 1981 and 1985 was 77% versus 63% for non-IBDS accounts.

Geographic Distribution

Exhibit 4.11 presents the geographic distribution of IEF loan accounts authorized over the evaluation period. We note that activity in Treaty 8 predominates with a lower average loan size and delinquency rate. In Treaty 7 there are four delinquent accounts over \$10,000.

Collections

In our discussions with IEF personnel, we were made aware of difficulties the Foundation has had in imple-

Exhibit 4.11**Authorized Loans by Treaty Area**

	Authorized Loans	Number of Loans	Average Loan	Delinquent \$ Value	Written Off \$ Value
Treaty 6	\$261,100	19	\$13,742	\$ 55,320	\$64,400
Treaty 7	\$162,579	15	\$10,839	\$119,328	\$ 8,000
Treaty 8	\$315,219	36	\$ 8,756	\$ 16,128	\$13,320
Other	<u>\$ 34,492</u>	<u>5</u>	\$ 6,898	<u>\$ 20,400</u>	<u>\$11,500</u>
Total	\$773,400	75		\$221,176	\$97,220

Source: IEF account data sheets to the end of August, 1985.

menting effective collection procedures. We are satisfied that the Board of IEF have implemented new procedures that are consistent with a more stringent collection policy. This policy must be enforced to heighten the sense of debt obligation amongst clients.

Funding Leverage

Exhibit 4.12 presents a profile of funds that have been attached to IEF supported projects. It is evident that IEF loans have been effective in jointly funding projects.

Recommendations:

We recommend that the Board of IEF continue to place emphasis on the reduction of loan write-offs. This emphasis would be significantly enhanced by further field contact with loan recipients.

We recommend that the Board of IEF actively reconsider operational merger with IBDS to facilitate effective loan monitoring.

4.2.2 Efficiency

Question: Is the Foundation operated in an efficient and cost effective manner?

Findings: We find that costs of program delivery per active loan at IEF are very high relative to the sizes of the loans.

We find that the Foundation has more than adequate resources to properly assess loan applications but inadequate resources to provide active loan follow-up and account counselling.

Exhibit 4.12**Indian Equity Foundation
Sources of Funding**

	1976/77 - 1979/80*		1980/81 - 1984/85*	
	\$	%	\$	%
Indian Equity Foundation	1,002,000	18.3	948,817	14.2
Commercial Lenders	2,250,000	41.0	1,403,182	21.0
DIAND Loans, Contributions and Guarantees	740,000	13.5	1,868,573	28.0
Native Venture Capital Corp.	-		333,956	5.0
Native Economic Development Program	-		700,000	10.5
Band Loans, Contributions and Guarantees	960,000	17.4	368,604	5.5
Personal Equity	<u>535,000</u>	<u>9.8</u>	<u>1,053,072</u>	<u>15.8</u>
Total	5,487,000	100.0	6,676,204	100.0

* fiscal years (Nov. 1 to Oct. 31)

Notes:

1. For the 1976/77 - 1979/80 period commercial loans, DIAND funding, Band funding and personal equity were recorded in fiscal year 1979/80 only.
2. Source: IEF

We find in general that the Foundation is administered in a cost conscious manner.

Analysis: This analysis has been conducted with the recognition that it is ultimately the right and obligation of the shareholders and Board of IEF to make judgements on cost-effective use of funds and labour. Our analysis focuses on:

- o administrative workloads;
- o administrative cost per loan; and
- o salary ranges.

Administrative Workloads

Over the 1981 to 1985 period, IEF received 147 loan applications and as of September, 1985 maintained 63 active loan files. The number of applications received per year has varied from 13 to as high as 49, with an average of about 30.

Active accounts are managed by the General Manager and the Manager of Administration assisted by an Administrative Clerk. Given that the General Manager has a number of duties other than account management and that the Manager of Administration also does bookkeeping for the Foundation, we estimate that there are 1.5 full-time positions allocated to active file management and a resulting 42 files per full-time position. We judge this to be a reasonable workload for an operation of this size. By way of comparison with a much larger organization, the Alberta Opportunity Company services 1615 active accounts with 55 head office staff (around 30 accounts per person) supported by 43 branch staff.

The General Manager has the responsibility of reviewing and assessing loan applications. Review and assessment of

a peak of approximately four applications per month in 1985 represents a moderate workload for this function and should provide adequate time for proposal assessment, particularly when applications for joint funding with IEDF are assessed concurrently with DIAND.

Administrative Cost per Loan

The annual cost of operations per active loan account at IEF is \$2,300 (\$145,000 expenses for 63 accounts). This is high relative to financial industry standards (e.g. for consumer loans of similar sizes to IEF loans) but is a function of the basic infrastructure put in place to support IEF, and the low throughput. It is our belief that significant cost savings would result from a merger of IBDS and IEF given our assessment of workloads. These savings are explored further in Section 6.4. One interesting comparison is that the administrative cost per loan at Alberta Opportunity Company is approximately \$2,000 (\$43.24 million for 1,615 accounts) but the average account size is \$107,000, approximately ten times the IEF average.

Salary Ranges

We have compared staff salaries to median salaries for similar positions reported in the Alberta "Pay and Benefits Report" (Alberta Bureau of Statistics 1985).

IEF Staff Position	Reference Group	Salary Relative to Median of Reference
General Manager	Branch Manager Financial Institutions (1-19 employees)	1.12
Manager, Administration	Senior Bookkeeper (1-19 employees)	1.09
Administrative Clerk	Junior Office Clerk	0.83

The data indicate that with the exception of the Administrative Clerk, salaries are only slightly above the selected medians.

4.2.3 Policies, Procedures and Controls

Question: Has the Foundation implemented appropriate policies, practices and controls to effectively monitor activities and controls costs?

Finding: IEF has developed and implemented policies, procedures and controls which provide effective monitoring of administrative, financial and program delivery functions. The existing, system of manual records maintenance is effective given the absence of interest calculations. As the total active client load climbs to over 200 consideration should be given to computerized record keeping.

SECTION 5.0

5.0 JOINT IMPACTS AND EFFECTS

The interconnected nature of IBDS and IEF results in overlap of the impacts and effects which may be attributed to their activities. The following discussion highlights these joint effects as well as those which can be uniquely attributed to either organization. Our analysis focuses on the following indicators:

- o business and employment creation;
- o entrepreneurial skill development and business viability;
- o secondary economic impacts; and
- o credit access.

In conducting this analysis we have drawn extensively from the information gathered in the interview process and supporting statistical data. The question of incrementality, that is to what degree these effects can be attributed to the activities of the organizations, is discussed lastly in Section 5.5.

5.1 Business and Employment Creation

The joint as well as independent activities of IBDS and IEF have resulted in the funding and commencement of operations for a number of small businesses. Exhibit 5.1 summarizes the joint small business development client base of the two organizations. It is clear that there is substantial overlap in the client base: 53% of IEF accounts originated with IBDS and 68% of IBDS funded clients received IEF loans. In total, after adjusting for overlap, the two organizations combined have contributed to the start-up of 202 businesses since 1978 and approximately 106 since 1981. Those IEF loan recipients not receiving IBDS assistance have generally been a mix of individuals, Band projects and DIAND assisted projects. The Band and DIAND projects are generally of a larger nature and become the responsibility of business development personnel of both agencies. Those IBDS clients not funded by IEF are generally individuals who seek assistance in getting small DIAND grants and contributions to

Exhibit 5.1

Small Business Client Accounts IBDS and IEF 1978-1985 and 1981-1985

IEF Accounts		IBDS Clients	
	Total	IBDS Originated	Funded Businesses
Authorized Loans 1978-85	161	86	127
Debt Status			
delinquent ¹ /write-off	76	39	42
paid	45	20	39
current	40	27	32
			14
	161	86	127
Operational Status			
ongoing ³	63	41	55
paid-still operating ⁵	18	16	
	81	56	
Authorized Loans 1981-85 ⁴	75	58	89
			Funded Clients 1981-85

¹ 3 months or more.

² Includes still operating - current on loans 32
 " - no contact 6
 " - no debts 15
 " - 3 months arrears 2
 55

³ Includes current and delinquent

⁴ Client account data are as of the end of August 1985 for IEF and January 1986 for IBDS.
 Total new IEF accounts in calendar period 1981-85 was actually 95 but the comparable number of IBDS originated accounts was not available.

⁵ Estimated on the basis that 40% of paid accounts remain in operation (IBDS experience).

support one-to-two person operations in such pursuits as trapping and handicrafts. Generally a project requiring more than \$10,000 is taken to IEF for part funding.

A key question relating to the impacts of new small business development is whether the businesses continue to be viable operations for a reasonable duration.

We have found it difficult to properly estimate the number of businesses currently in operation as well as the extent of their operations. IBDS reports that 55 of the 127 businesses they have assisted are still in operation as of January 1986. A comparable number for IEF is more difficult to estimate since businesses are classified by loan status rather than state of operation. We estimate that approximately eighty to ninety IEF accounts are associated with active businesses and that fifty to sixty of these originated with IBDS. IEF reported that as of October 31, 1985 they had 122 projects still in operation but it is likely that some of the older paid accounts are inactive businesses. It is apparent as well that almost all of IBDS' operational businesses are IEF clients. We therefore deduce that between the two organizations they have contributed to the establishment of about 100 businesses.

We have examined a number of sources of information on employment generation including IEF records, IBDS reports and the previous evaluation DPA has conducted on the IEDF Loan Fund (June 1985). As might be expected, there is a wide range of estimates for employment creation per business established:

	<u>Jobs per Business</u>
IEF ongoing accounts:	4.4
IEF paid accounts:	1.9
IBDS reports:	2.0 to 4.0
IEDF Loan Fund:	2.5 to 3.0

These estimates are all somewhat unreliable given a lack of information on the seasonality of the businesses and the proportion of jobs that are part-time. Information on employment collected in the course of our interviews with IEF clients (sample of 18 firms) provide an estimate of 6 full-time positions and 1 part-time position per firm. These we consider to be unreliable given the sample size. A reasonable range of ongoing employment generation associated with the 100 active firms would be 250 to 350 jobs of which a significant proportion would be seasonal or part-time.

Finding: IBDS and IEF have contributed to the establishment since 1978 of approximately 100 businesses which are going concerns creating ongoing employment for from 250 to 350 persons on a full-time, seasonal or part-time basis. The establishment of 100 ongoing businesses indicates a major contribution to the estimated 250 status Indian businesses currently operational in Alberta.

5.2 Entrepreneurial Skill Development and Business Viability

Most of the clients of IBDS and IEF have little or no formal training in business skills. The process of developing and financing a small business must likely therefore have substantial learning value of a type unavailable from instruction or classrooms. Ninety percent of the operational clients interviewed in this study indicated that their skills had improved since starting the business. Sixty-two percent of the respondents said their business had grown and ninety-five percent indicated that they saw opportunities for expansion of their business. It was interesting that 62% of the clients responded that they felt they faced the same problems and opportunities of other small businesses. In general, amongst these clients, we note a strong sense of optimism that their businesses are viable and that the financial status of their business has improved and will continue to improve. Our ratings of commercial viability indicate that more than

half of the firms were rated good or very good in terms of management skills and market potential.

We note as well the very positive evaluation that trainees have given the IBDS training sessions.

Finding: Clients of the two organizations have developed their skills, improved their businesses and are generally positive about future business prospects.

5.3 Secondary Economic Impacts

Operational small businesses generate regional economic activity through purchases of goods and services. Our interviews of operational businesses indicated that one-third of the businesses purchased goods and services from other businesses on their reserve. These goods and services included an array of commercial trades and materials supply services. One-third of respondents said that their existing patrons would use off-reserve services were they not in business. In addition Indian leaders strongly supported the provision of band services from band businesses.

Our impression from these results is that a significant amount of personal and band-related expenditures have been retained on the reserves through development of small businesses. There is a definite need however to reorient much of the entrepreneurial activity to off-reserve markets so that the reserves can participate fully in local economies.

5.4 Commercial Credit Access

Our analysis of IEF fund leverage on commercial lending indicated an acceptable utilization of commercial lending sources. It is our understanding however that lending practices by commercial institu-

tions (e.g. FBDB, charter banks) to small businesses, Indian and otherwise, have become more stringent as a result of the Alberta recession. This trend will require increased effort on IEF and IBDS' part to access commercial capital. Many of the client respondents felt that they could not have obtained commercial capital for their businesses. IBDS and IEF were rated by clients as being very effective in assisting to obtain financing.

5.5 Incrementality

A key question in any evaluation is whether the effects measured would have occurred to some degree without the program. We addressed this question through the interviews and conclude the following. Approximately one-half of the business operators interviewed indicated they received no advice from other sources on their business concept. Of 15 respondents, 10 indicated that their business would not have succeeded without IEF funding support and almost all indicated that the funding had a positive impact on their business. Approximately one-half of the respondents indicated that they were aware of no other alternatives to IEF being explored. It is of interest in this regard that more than one-half of the respondents did not consider IEF and IBDS as agencies of "last resort" - apparently they are drawn to these agencies first because of their special role in serving Indians.

Our qualitative judgement of these results is that a significant portion of the business development associated with IBDS/IEF would not have occurred in their absence. We do note however that their services are not unique, given the ongoing role of Indian Affairs in providing advisory services, contributions and loans. Separating the incremental effects of IBDS from IEF from Indian Affairs is beyond the capabilities and scope of this evaluation.

SECTION 6.0

6.0 EVALUATION ISSUES: FINDINGS AND RECOMMENDATIONS

6.1 Program Rationale and Mandate

6.1.1 Continuing Need

Question: Is there a continuing need for business development assistance and equity financing assistance specifically targetted to status Indians? Have there been changes in the nature of need which would imply changes in mandate, objectives or services of the evaluated organizations?

Findings: Almost all (17 of 19) Indian Leaders indicated in the interviews that there was a continuing need for small business development assistance and special funding in support of Indian small businesses. The number of small businesses per capita amongst status Indians in Alberta is approximately one-tenth of the population at large (5 versus 50) and there is evidence in IBDS's growing client load that interest in business development is growing. The Economic and Employment Development Branch of DIAND, Alberta Region continues to place strong emphasis on the further development of the Indian private business sector. Although at present the Indian Equity Foundation loan fund is under-subscribed, there is evidence that future Indian business development in some regions of the province will be at a scale which exceeds the present loan limits of the Foundation. Although there are other provincial agencies (BANAC, NVCC) which provide similar or complementary services to IBDS and IEF, there is a pressing need to sustain the delivery of specialized business development assistance and financing to Alberta's status Indians.

We conclude that the following key barriers to the development of Indian business continue to exist:

- o a resistance by conventional lenders to finance Indian businesses;
- o a lack of awareness of the potential business opportunities in local regional economies;
- o a lack of entrepreneurial experience and managerial skills.

Given these barriers, there is a requirement for continued business development and financial assistance which will encourage and respond to the following conditions:

- o growth in the number of fledgling small businesses which will require effective ongoing support;
- o an evolution towards larger and more capital intensive businesses as capabilities increase and a resulting demand for more sophisticated and diverse financial services;
- o greater orientation towards off-reserve businesses and a more active integration into the regional and provincial economic lifestream;
- o recognition of the importance of Band-initiated projects and the need for sound Band administrative practices;
- o recognition, acceptance and support for successful Indian businesses and development of high profile role models.

Recommendation:

We recommend that the Department of Indian Affairs continue to address the real need for specialized business development and financing services for status Indians in Alberta.

Further recommendations of this report relate to the performance and role of the evaluated organizations in fulfilling these needs and to alternative mechanisms by which these needs might be more effectively or efficiently met.

6.1.2 Role of Indian Institutions

Question: Are provincially based Indian institutions appropriate and effective mechanisms for the provision of business development and financial services?

Findings: We find that provincially based institutions which are effectively accountable to the Indian people of Alberta have several distinct advantages in principle over alternatives assessed for the delivery of business development and financial services. These advantages include:

- o direct responsiveness to the expressed needs of Indian people;
- o effective use of limited funds through concentration of effort;
- o development of a common sense of pride and proprietorship in an Indian-controlled entity;

- o development of an independent line of responsibility and accountability which is direct to the Indian people and not encumbered by judgements of the Department of Indian Affairs.

We also find that there is general support amongst Indian leaders (21 interviewed) for the concept of institutions delivering these services.

In practice, the performance of such institutions is directly related to the degree to which they can reconcile and accommodate politically based demands placed upon them and the degree to which they can fulfill the needs of their client base within political and budgetary constraints.

On balance, it is our conclusion that provincially-based Indian institutions, working in effective concert with bands and regional councils, offer the best long-term approach to delivery of business development and financial services.

Analysis: Institutions which are accountable to Indian people and responsive to their needs have been supported in principle by both the Department of Indian Affairs and the Indian people of Alberta (witness the Syncrude Agreement). The important role seen for such institutions as a cohesive central force in the economic development of Indians was highlighted in the report of the Special Committee on Indian Self-Government in Canada (Penner Report 1983). Institutions have generally been viewed as a viable mechanism by which the delivery of economic development services and programs could be transferred to the authority of Indian people as shareholders of the institutions and as represented by elected board members.

A minority of Indian community leaders (3 of 21 for IBDS and 5 of 21 for IEF) indicated in interviews that they would prefer alternative mechanisms to fund and/or deliver services currently provided by these organizations. In two cases, the suggestion was made that the Band receive direct funding or assess project feasibility itself. Three comments were received suggesting that the two organizations be amalgamated. In general, we infer from these results a strong majority support for the institutions per se.

Alternatives to the use of institutions for service delivery include: retention of activities within the Department of Indian Affairs or allocation of funds and responsibilities to the Bands or Regional Councils in Alberta. To a certain degree, the latter process is underway in Alberta with economic development person-years being directly allocated to Regional Councils. Certainly there is a substantial directional push at the Ottawa and regional level in DIAND towards devolution of their role in service delivery functions and to transfer this to Indian governments and institutions. This process is based on the premise that Indian governments and institutions can best assess and address the needs of their people. Our impression, however, is that devolution of activities has not necessarily been accompanied by devolution of discretionary powers in the actual use of funds.

Given the dispersed population and political representation of Bands in Alberta as well as the limited availability of funds for economic development, there has been, and in our judgement still exists, a strong rationale for concentration of core business development and financial support activities in provincially based institutions. This approach has not been

without problems, principally disputes as to the equity of fund utilization and service delivery. Our analysis suggests however that to be effective an institution designed to provide financial services (i.e., investment, loans, guarantees) should function as a single entity at the provincial level. We also believe that there is a strong rationale for retaining a provincial level agency for the provision of business development services particularly those functions best served by centralized efforts.

The points in favour of preserving a provincial level agency include:

- o liaison at a high level with industry and government;
- o comprehensive identification and strategic evaluation of business development opportunities;
- o production of communication material (e.g., newsletters, press releases, annual reports);
- o higher order feasibility assessment and financial planning (i.e., for complex and large projects);
- o provision of specialized administrative planning and training activities.

Given adequate resources, lower level business development functions would best be delivered from regional offices using field staff of the regional councils or Bands or field staff of the central institutions.

Recommendation:

We recommend that the Department of Indian Affairs continue to support provincially-based Indian economic development institutions which are accountable to Alberta Indians in both principle and practice.

6.1.3 Appropriate Mandates

Question: Are the existing mandates of the organizations adequate to permit effective response to client needs?

Findings: The existing mandates of IBDS and IEF have evolved over time, subject to the directions established by the respective Boards of Directors. Significant changes in mandate at IBDS have included provincial coverage, band consulting and fee-for-service. Changes at IEF include replacement of grants with no interest loans and recently a greater emphasis on obtaining security and enforcing collection. It is notable that most of these changes have been made in response to corporate needs as well as client needs.

The separation of banking (IEF) and development (IBDS) mandates was initially established to alleviate conflicts of interest between the business proponent and the lender. We observe that IBDS has generally been servicing its client's interests in attempting to achieve optimal financing. IBDS also respects the confidentiality of client information it obtains. It is not surprising therefore that the separation of mandates has led to a certain amount of conflict between the organizations.

We have observed in the course of the evaluation that there is an expressed need for more ongoing follow-up

assistance and training. The mandate for follow-up assistance is shared between IBDS, in its commitments to operational clients, and IEF, in its obligations as a lender. We believe that the demands of developmental clients and the efforts channeled by IBDS into band consulting revenue generation have likely resulted in less attention being paid to operational clients. On the other hand, IEF does not have the field staff capability to provide counselling on the approximately 60 active accounts it presently maintains (approximately 20 in arrears). Under these circumstances, we believe that there is a gap in terms of operational client servicing and loan counselling. Operational merger of the two organizations and a reorientation to operational client services would assist in filling this gap.

With respect to entrepreneurial training, IBDS has a clear mandate in its objectives to provide training in a variety of forms. At present, however, the role of IBDS in delivering non-accredited training requires better definition, particularly in relation to the number of accredited programs available. This topic has already been the subject of a recommendation (Section 3.2.1).

The maximum loan size allowed at IEF is reasonable relative to the size of the loan fund available. The implied mandate of IEF is therefore an orientation to businesses requiring no more than \$250,000 in capitalization (1/5 or \$50,000 from IEF). IEF is restricted as well in that it can provide "loans, grants or contributions" only. We believe that there is also an emerging need and demand to embark on larger business ventures on a shareholding equity basis.

This would require a substantial change in the mandate and capital base of IEF as suggested in the "Business Plan 1986 - 1996" prepared by the Foundation.

6.2 Organizational Structure and Management

6.2.1 Financial Accountability and Autonomy

Preamble: During the interview process, the consultants identified a number of issues and points of friction between DIAND and IBDS in particular (e.g., fee-for-service, salary levels, president's compensation, productivity levels). Many of these issues have been dealt with elsewhere in this report, but they raise the bigger question of what appropriate degree of accountability as opposed to autonomy should exist between the Indian Institutions and DIAND.

As a point of departure, we have accepted the intent of two key conclusions of the Penner Committee on Indian self-government:

"The Committee is entirely convinced that Indian self-government must be supported by new funding arrangements that would enable Indian First Nation governments to decide how best to meet their people's needs.

Self-government requires that Indian First Nation governments be free to make policies and to set their own priorities. To ensure that they exercise such powers responsibly and that the people in turn are protected

against wrongful use of these powers,
these governments must also be
accountable to those people."

We believe what we have observed as friction between the Department and the Indian Institutions in Alberta is a manifestation of the contradiction between the perceived intent to devolve power and responsibility and the actual process in which accountability requirements to the department have become increasingly stringent. Given the fiscal constraints placed on DIAND, the increasing demands placed on the department for economic development, and the general pressure for the department to be more concerned with internal cost-effectiveness (e.g., revamping of IEDF loan procedures) it is not surprising that contribution agreements are becoming increasingly more demanding in terms of accountability and reporting.

We believe however that the intent of the creation of Indian Institutions was and is not that they simply be service agencies to the department. The intent rather was to establish credible, responsible and accountable organizations to which real decision making and autonomy could be devolved. We believe that both the establishment of such organizations and the devolution of responsibility is an evolutionary process. We believe that both IBDS and IEF have demonstrated acceptable progress in becoming credible, responsible and accountable to the Indian people of Alberta. As such, they therefore merit the confidence of the department. We further believe, given our assessment of the passive role of the present shareholders (IAA), that a more active and more broadly based shareholding would further enhance the mobility and

credibility of both IBDS and IEF in the Indian public. A number of mechanisms are foreseen by which this broad base of input could be achieved. These are discussed in Section 6.2.2 which follows.

Given these observations and conclusions, we make the following recommendations on financial accountability and autonomy:

Recommendations:

We recommend that new funding arrangements with the institutions be of a block funding nature, by program functional component (i.e., administration, management, operations) and not detailed line items.

We recommend that simple performance indicators representing the full activities of the institutions be adopted by mutual agreement between the institutions and the Department of Indian Affairs. Funding however should not be made contingent on attainment of Departmental targets but on evidence of broad based shareholder satisfaction with the operations of the Institution and on reasonable evidence of responsible management as determined by independent evaluation if necessary.

Recognizing that the transfer of responsibility is evolutionary, we recommend that the Institutions continue to be required to produce and submit to the Department quarterly activity reports, an audited financial statement and a fully descriptive annual report. Further, these documents should be subjected to review and approval by the board and shareholders in the course of their corporate obligations. The annual report should be produced in a consistent format and be broadly distributed.

We recommend that the operational directions of IBDS and IEF continue to be controlled by their respective board and shareholders.

6.2.2 Shareholding Base

Preamble: Recognizing that devolution of increasing autonomy and responsibility to Indian Institutions is mutually dependent on demonstration of real accountability to Indian people, we suggest that the shareholders and trustees of that shareholding (IAA) ensure a broader base of input, review and participation in the activities of both IEF and IBDS. This broader base might manifest itself in an active annual meeting, in election rather than nomination/ratification of directors or in a transfer of trust to band councils.

Recommendation:

We recommend that the Indian Association of Alberta, as trustees of the shares of IBDS and IEF, examine ways and means of broadening the base of shareholder participation in the Institutions.

6.2.3 IAA Monitoring Role

The Terms of Reference specified that the consultants address the following question:

Question: How is the IAA monitoring role implemented from the perspective of direct participation in administrative process and through indirect influence such as at the political level?

Findings: We find that the IAA monitoring role has been essentially that of a passive shareholder. The IAA reviews and ratifies the annual financial statements of the Corporation, board positions and significant policy changes. There appears to have been minimal participation of the IAA in the ongoing administrative and operational processes of the firms. As holders of shares in trust for Alberta Indians, the IAA has both the right and obligation to monitor and participate in the operations of the organizations. Participation of the IAA has been focused primarily in the activities of the President of the Association.

6.2.4 "Indian" Institutions

The Terms of Reference specified that the consultants address the following question:

Question: These organizations are referred to as "Indian Institutions." Are they from the perspective of ownership, program control, administration and participation of Indian people within the organization? Do Indian people/clients feel that the institutions are accountable to them?

Findings: Ownership of both IBDS and IEF is vested in the Indian Association of Alberta with single shares concurrently held by five individual treaty Indians (one for IEF, four for IBDS). In both corporations, the Indian Association holds its shares in trust for the treaty Indians of Alberta. Ownership of IBDS and IEF is therefore in the hands of all treaty Indians in Alberta and is vested in a trust relationship with IAA.

Program control of IBDS is vested in the Board of Directors. The seven member Board has a requirement

for four treaty Indians. Directors are internally nominated and ratified by the IAA. Program control is therefore substantially under the control of Alberta treaty Indians, but there is a broadly based election procedure.

Program control of IEF resides in a five member Board with a requirement for three treaty Indian representatives, one from each treaty area. Board members are internally nominated and ratified by the IAA. There is no broadly based election procedure for board members.

Both organizations have presidential and vice-presidential positions which are filled by status Indians. Both organizations have made efforts to train and hire Indian people for staff positions, but neither organization has had an Indian manager. Currently, IEF has two positions filled by Indians, IBDS has one. Both organizations have had difficulty in acquiring qualified Indian staff to work in Edmonton.

Our interview results with Band leaders indicated that many of these individuals were unaware of the ownership structure of either IBDS and IEF and that they were either not aware of or willing to comment on the extent of Indian participation.

Most clients were also unaware of the ownership of IBDS/IEF. Two-thirds of clients interviews were strong in their indication that capabilities and qualifications of individuals, not their Indian status, should be the primary determinants of employment with the organizations.

Based on these results, it is our impression that most clients and band leaders are unaware of ownership structure and place primary emphasis on the quality of service delivery regardless of who provides or controls it.

6.3 Program Delivery

6.3.1 Proactive Opportunities Identification

Preamble: Between 1980 and the present, IBDS has restructured their priorities for program development. Priorities as of 1980 were as follows:

- o The first priority is to identify contract and economic development opportunities.
- o The second priority concerns organizing new Indian businesses to take advantage of identified contract and economic development opportunities.
- o The third priority is to relate existing Indian business people to these identified contract and economic development opportunities.
- o Lastly, the corporation will be concerned with dealing in the area of potential development for which there is no concrete opportunities.

The IBDS Program Development Strategy as of 1985 states:

"Limited financial and technical resources, a limited timeframe, and the realities of small business development

dictate certain program development priorities. In other words, soliciting a great number of business development "ideas" without regard to carefully researched contract and/or economic development opportunities would fast result in more work than could be properly handled, relatively few successful enterprises, great frustration and generalized dissatisfaction with both the role and the capabilities of the Corporation.

These limitations therefore dictate that the Corporation staff concentrate its efforts, as a first level of activity, with assisting in organizing new Indian businessmen to take advantage of identified contract and economic development opportunities; secondly, to relate existing businessmen to identified contract and economic development opportunities; and last in the development of potentially attractive business development ideas."

Thus, because of limited resources, the previous top priority of identifying contract and economic development priorities has been shifted to the bottom priority. IBDS is now in a reactive stance. In Section 3.2.1, we recommended that additional resources be put in place to support such a stance. It is the consultants' belief that further substantial progress in the development of Indian business could be achieved by:

- o identifying opportunities and linking these with Indian businesses;
- o coordinating IBDS's efforts with regional development councils and Alberta Small Business;
- o liaising with major corporations and governments to promote the purchase of Indian business goods and services;
- o tapping a likely pool of dedicated and experienced business people in the form of a voluntary Advisory Council. Such a council would complement the liaison and opportunities identification functions.

The manpower requirements and cost implications of these activities are discussed in Section 7.4.

Recommendation:

We recommend that, in support of a proactive role in business opportunities identification, the IBDS Board consider implementation of a voluntary Advisory Council of experienced business people (Indian and otherwise) to assist in identifying business opportunities and to provide general advice on strategies and actions for Indian business development. The Council should have regional representation and would require incremental funding from DIAND.

6.3.2 Fee-for-Service

Preamble: The IBDS Board has authorized on general principle that the corporation implement a fee-for-service

policy. To date, the policy has been implemented in terms of:

- o an application fee (approximately \$20 cited as covering a credit check);
- o fees for selected regular services to operational clients (e.g., on a negotiated basis for such services as monthly bookkeeping/accounting);
- o fees for business plan/financial proposal writing on behalf of developmental clients--these fees are specified in a contract on a work required basis and are stipulated as being contingent on successful financing;
- o fees for Band consulting contracts which are negotiated.

The amount of funds currently flowing to the Corporation are relatively small but growing. The Corporation has established a labour rate and cost recovery structure that effectively passes one-third of the estimated costs to the client.

The rationale used by the Corporation in implementing fees-for-service are that they encourage commitment on behalf of the client and generate revenue to offset the corporation's operating deficit.

It is important to recognize that the fee amounts passed on to clients by way of debt financing are real debt costs to the client.

Question: Is fee-for-service within the IBDS mandate and, if so, is it implemented in a manner that respects the intent of DIAND's contribution agreement and is not detrimental to achievement of the Corporation's objectives?

Findings: The principle of fee-for-service does not in theory violate the Corporation's mandate as a non-profit organization or the specific requirements of the existing contribution agreement with DIAND. This agreement simply denies DIAND responsibility. DIAND can however exercise a condition of contribution that no fees be charged on specific services.

The policy of fee-for-service as implemented by IBDS as one-third estimated cost recovery might be construed as double costing of resources paid for by DIAND. It is our judgement, however, that the intent of this policy is to generate revenue to meet deficits. Should the intent however be to finance the distribution of profits, we believe that the corporation would be in breach of its mandate. Notwithstanding this judgement, we believe, as has been noted elsewhere, that there are other ways and means by which the Corporation can reduce its deficit without significantly affecting client services (See Section 3.2.2).

As stated elsewhere, we believe that IBDS should establish a more structured fee schedule (i.e., fees for types of services rendered) based on nominal amounts having no significant deterrent effect on clients. The structured fee schedule should be accepted in principle by the shareholders. With respect to a contingent fee charged on successfully funded projects, we believe that such a fee, provided

it is nominal and in no way a deterrent, has the advantageous effect of encouraging project officers to move clients to the operational phase.

Recommendation:

We recommend that DIAND and the institutions reach agreement on a core set of services for which funding is provided and for which no fees (or agreed upon nominal fees) will be charged. Beyond this core set of services, the institutions would be free to provide incremental services on a fee-for-service basis which is acceptable to the shareholders.

6.3.3 Follow-up Service and Loan Monitoring

Preamble: One of the most significant and dominant themes of the client and band leader interviews was the need for more extensive and intensive follow-up field services. This point has been addressed elsewhere in this report as a subject of recommendation. We believe that it is worthy of reiteration as an issue requiring action.

Findings: There is a strongly expressed need by clients and community leaders for more field services at the reserve level, particularly for operational clients. Recognizing the practical difficulties in managing regionally placed project officers, recognizing that such services would likely require incremental funds for office services, recognizing the difficulty in getting qualified competent people to live in rural areas and recognizing the presence in some areas of economic development offices, we believe that more emphasis should be given to follow-up services.

Recommendation:

We recommend that DIAND, following the intention of policy statements, devolve business development person-years to the appropriate institutions (IBDS, IEF or new institution) to be used for regional field service positions complementary to existing positions and strategically placed to take advantage of business opportunities.

6.3.4 Operational Issues

Preamble: In the course of this study, we identified a number of points of friction amongst IBDS, DIAND and IEF. Examples include:

- o requirements for proof of refusal of bank financing;
- o depth of market analysis;
- o format and content of business proposals;
- o confidentiality of client information;
- o repeated requests for supplementary information;
- o lack of clarity on equity requirement policy;
- o assumptions regarding IEF equity level;
- o presumption of services to be rendered by another agency.

We believe that many if not all of these issues can be solved by negotiation in a spirit of good faith whereby there is agreement on and adherence to simple ground rules.

6.4 Question of Amalgamation

Question: What are the advantages and disadvantages from both on effectiveness and efficiency view point of amalgamating IEF and IBDS?

Findings: We find that amalgamation of IEF and IBDS has the potential to yield significant advantages in terms of effectiveness and efficiency in the delivery of business development and financial assistance services.

We find that merger of the existing companies can be achieved such that there will be no deficit on operations. This finding is based on the assumption that interest from the accumulated surplus of IEF will be used to finance operations.

Analysis: Exhibit 6.1 presents our itemization of the advantages and disadvantages of merger of the two organizations. In general, we concur with previous assessments of merger that identified significant practical operational advantages as well as cost savings.

Potential disadvantages can be overcome by:

- o ensuring that a separate loan approving board is established with experienced and knowledgeable representation from outside the new organization;
- o ensuring that a loans account manager directly responsible to the loans board handles loans administrative functions (i.e., keeps accounts, prepares statements, handles collection) but not counselling functions. Counselling functions should be left to project officers. The intent is to separate the perception of the "Fund" from the advisory services component;
- o investigating legal mechanisms whereby the "Fund" might be separately maintained as a charitable agency (i.e., similar to an alumni fund). While we have not

assessed these options, we believe that such effective status can be achieved.

Given the intent to merger, the question remains as to how merger might legally be structured. Options include:

- o absorption of one company by the other;
- o creation of new umbrella company;
- o dissolution of existing companies and creation of a new company.

We believe the respective parties should consider these options under legal and accounting advice as to a best long-term arrangement.

Our preference would be the creation of a single new firm which might be called the Alberta Indian Business Development Corporation with the Indian Equity Fund as an adjunct entity reporting under separate financial statements. Such a corporation would complement the existing Alberta Indian Agricultural Development Corp. and highlight the geographically compensating activities of the two corporations. The possible structure and associated costs for such a corporation are discussed in Section 7.3.

The move to a merged organization would result in calculated annual savings as follows:

Overhead	\$15,000
Salaries and Benefits	<u>48,000</u>
	\$ 63,000
Minus Increased Loan	
Board Costs	<u>7,000</u>
Net Savings	\$ 56,000

Additional cost reductions of \$18,500 could be achieved by adjusting salaries to median levels cited in this report.

Recommendations:

We recommend that the Boards of Directors of IEF and IBDS, and representatives of the Indian Association of Alberta (IAA), as trustees of the shareholders of the organizations, seriously consider the advantages of merging the two organizations and take effective action.

We recommend that the Department of Indian Affairs actively support the concept of merger through negotiations with the shareholder trustees (IAA) on future five-year block funding of the restructured organization.

We recommend that the Boards and shareholders acquire professional legal and accounting advice on ways and means to retain tax free status for the Equity Fund.

Exhibit 6.1

	Advantages	Disadvantages
Effectiveness	<ul style="list-style-type: none">o concurrent use of project managers as loan account counsellorso improved transfer of information between loan monitoring and business advisory functiono clearer public perception of a single effective agencyo more focused attainment of common goalo greater vested interest in operational clients	<ul style="list-style-type: none">o potential conflict of interest in a collections situation -- perception as a collections agencyo potential loss of charitable statuso additional load on field personnelo potential loss in objectivity in reviewing loans
Efficiency	<ul style="list-style-type: none">o reduction of senior administrative costso better use of a consistent computerized client data baseo reduction of office overheado minimize loan administrative burdeno potential to balance budgets based on accumulated surpluso reduction of Board of Directors costs	<ul style="list-style-type: none">o possible legal costs and lease buy out costs

SECTION 7.0

7.0 FUTURE DIRECTIONS

The intent of this section is to provide commentary on future directions for the two institutions. These comments should be regarded as exploratory only and not considered as recommendations in any sense.

7.1 Role of Institutions

We foresee a strong role for the Indian economic development Institutions building on a broadened and strengthened base of shareholder participation.

The Institutions will continue to have to effectively respond to regional political pressures and justify their services. This is a normal condition of accountability.

We believe that there is a particularly strong rationale for a provincially-based loan and equity fund managed by a centralized loan board of broad Indian and non-Indian representation accountable to Indian people.

We also believe there is a rationale for centralization of certain business development services including specialized financial and managerial consulting, large project evaluation, training development, industrial and governmental liaison, and public communications.

7.2 Implications of Current Plans

The Indian Equity Foundation currently has an application in the Native Economic Development Program. This application proposes to establish an Alberta Indian Investment Corporation to provide a full range of business development assistance and financial services. The

Corporation is proposed to be capitalized with \$1.5 million from IEF and \$10.0 million from NEDP. The application has the support of the Indian Association of Alberta.

The proposed Corporation duplicates many of the services presently provided by IBDS and will require a continuing subsidy commitment of \$600,000 per annum from Indian Affairs. Fulfillment of this requirement from Alberta Region's budget will necessitate an increment of approximately \$500,000 per annum over the existing commitment to institutions of \$1.2 million within a total economic development budget of \$5.7 million.

It is apparent therefore that should the IEF application be successful a restructuring of departmental spending priorities would be required to accommodate the subsidy.

The merger recommended in this evaluation is one of several options open to the shareholders of the corporations by which a single corporate entity could be structured to operate as both a business advisory and financial institution. We have not considered an analysis of all alternative future options for provision of these services to be within the scope of the evaluation.

7.3 Alternative Organizational Structure

Exhibit 7.1 presents a merged organizational structure that we believe would increase the efficiency and effectiveness of the IBDS/IEF role. The structure includes no provision for additional staff resources or Business Advisory Council.

7.4 Funding Mechanisms and Levels

We believe that a 5-year funding commitment is essential to the

orderly operation and planning of the Institution(s).

Our calculated annual cost (in 1985 \$) for the above noted structure, based on existing unit costs and salary levels at IBDS and IEF is \$491,400 per annum.

We understand that "Alternative Funding Arrangements" are currently being negotiated by the department and some Indian organizations. This funding route appears appropriate for Institutions as well.

Having looked at the option of funding Bands for the direct delivery or purchase of business services, we believe that direct funding of the Institution is the preferred approach since it permits the formation of a core of expertise at an important developmental point in time.

Recommendations in this report have the following implications for additional resourcing of the Institution in a merged and expanded role.

	<u>Approximate Annual Cost (1985 \$)</u>
Proactive Business Identification	
o one communications/business opportunities co-ordinator	\$35,000
o travel and newsletter production costs	15,000
o Advisor Council	<u>15,000</u>
Sub-Total	\$ 65,000

Follow-Up Services and Loan Monitoring

o two project officers	\$ 60,000
o travel (\$800/month/officer)	<u>19,200</u>

Sub-Total	\$ 79,200
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Training Co-ordinator	Sub-Total	38,000
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o Salary and travel	
o if role is determined	<u> </u>

Total	\$ 182,000
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Exhibit 7.1

**ORGANIZATIONAL STRUCTURE
MERGER
No Enhancement of Resources**

