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YUKON 2000

FINANCIAL INSTITUTIONS

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YUKON ECONOMIC DEVELOPMENT STRATEGY
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YUKON DEVELOPMENT STRATEGY

FINANCIAL INSTITUTIONS - YUKON 2000

SUMMARY

A modern economy requires accessible financial services in order to be efficient. In most regions they are available and taken for granted. The money industry tends to follow, not lead, development and growth and accordingly, the Yukon has special requirements to avoid a catch 22 situation.

Historically, developing areas were serviced by financial entrepreneurs who looked to the future for growth and profit. In this environment the business community was usually well served. To a certain degree, this situation still occurs in areas considered to be developmental. When an area is perceived to be stable, or in decline, the financial services industry - banks, brokers, trusts, insurance - reverts to strict profitability measures.

In mid 1986 the Yukon Territorial Government and the Government of Canada commissioned a study of the access to capital by Yukon businesses. A number of financing problems and difficulties were identified and recommendations presented. This study is available to Yukon 2000 conference participants. In summary, the authors suggested new government

programs to encourage equity investments, expand debt financing, enhance business training and education and provide business advisory services in rural areas.

There are gaps in financial services in the Yukon and the area is not currently an attractive frontier for financial entrepreneurs. Some assistance is necessary in order to ensure that Yukon businesses fully utilize the services available and, at the same time, plans should be made to compensate for the rationalization of financial institutions which usually follow a period of low economic growth. There is a role for government in this process and the focus should be on the identification and encouragement of new and expanded business enterprises - the leading edge of a vibrant and effective financial service industry.

FINANCIAL INSTITUTIONS

The modern economy has surpassed the point when much time and attention is addressed toward financial institutions. They are generally taken for granted. Globally, the banks, brokers, trusts and insurers are experiencing slower growth and increasing competition which is leading to fundamental assessments of their business development strategies - including sharp examinations of regional, product line and branch profitability. In many parts of Canada this situation has caused institutions to hustle after consumers, thus giving individuals and

businesses a level of service greater than they have ever experienced. One might reasonably assume that this environment would affect the Yukon.

The Yukon is affected, but not favourably, by the changes and new developments in the financial services industry. At a time when new business and increased profitability is the mission for financial institutions the economy of the Yukon has been flat. Combined, these factors have caused Yukon financial institutions to be cautious insofar as business development is concerned. Typically, the regional and head offices of the banks are trying to improve retail volumes and profitability in the face of:

- o increased competition putting downward pressure on lending returns and increased loan losses from marginal credit risks
- o large investments in technology with pay offs expected through lower costs in the future
- o loss of business to non-bank competitors
- o disappearance of cheap deposits
- o significant losses in international and resource related loan portfolios.

All of the financial institutions operating in the Yukon seem to consider their Yukon operations to be remote and of marginal interest. This view mitigates against any development or entrepreneurial/investment strategies on their part. Since most of the businesses in the Yukon - new and existing - are small and at the margin as far as risk is concerned, the attitude of banks put Yukon businesses at a disadvantage vis a vis similar enterprises in a different (i.e. more aggressive) environment. This is the situation in Whitehorse and is further exaggerated in other more remote, Yukon communities. The latter have the additional disadvantages of lack of personal knowledge and contact, an element which is vital in the delivery of financial services.

The changes underway do not point to radical new ways of providing financial services. Instead, some see a return to banking fundamentals and away from entrepreneurial risks - either in branch operations or lending. In the absence of contrary evidence one would expect the Yukon to experience a consolidation of financial services and a reduction in general flexibility insofar as credit is concerned.

ACCESS TO CAPITAL

In early 1986 the Yukon Territorial Government commissioned, through the Canada-Yukon Economic Development Agreement, a comprehensive study of the access to capital by Yukon businesses. The full report is available to

Yukon 2000 conference participants. It contains the following recommendations:

1. Private Investment Incentives: it is recommended that the Yukon Territorial Government consider the establishment of a program which would encourage equity investment in small Yukon businesses. The program would allow investors to invest relatively small amounts of capital into qualifying businesses, and in return receive a grant or tax credit from the Yukon Government for a percentage of their investment. The grant or tax credit would likely range from 30% to 50% of the investment.

2. Small Business Equity Corporations: it is recommended that the Government consider legislation allowing the creation of small business equity corporations. The program would encourage investors to consolidate capital within small business equity corporations and re-invest those funds into qualifying Yukon small businesses. The minimum investment into an equity corporation would be in the range of \$20,000 to \$25,000, and investors would receive a grant ranging from 30% to 50% of any investments into qualifying small businesses.

3. Public Venture Capital Companies: the public venture capital company concept implemented in other areas of Canada is not considered appropriate to the Yukon. However, the Government may wish to establish a mechanism which would allow it to inject equity directly into specific industries or regions, with rural small businesses as a prime example. The Yukon could invest directly through an agency such as the Yukon Development Corporation, or indirectly through an intermediary such as Dana Naye Ventures.

4. Loan Guarantees: it is recommended that the Yukon Government consider the establishment of a program of loan guarantees which would provide guarantees in excess of the \$85,000 limit now stipulated by the Small Business Loans Act. Recommendations regarding the amount of loan guarantee could be made the responsibility of an agency such as the Small Business Assistance Program Advisory Committee. The primary objective of the expanded loan guarantee program would be to assist in the financing of viable businesses which were unable to obtain financing due to such factors as inadequate (or undervalued) security, the inability to obtain a long term lease, or the inability to obtain adequate insurance. As most small businesses in the Yukon would normally qualify under the current \$85,000 limit, it is expected that this program would primarily benefit businesses which are located in rural areas and which frequently face problems with security, tenure and insurance.

5. Direct Loans: recognizing the priority which the Yukon Government has placed on rural development, the Government may also wish to establish a program which would allow it to direct loan funds in support of rural small business. This could be accomplished directly through an expansion of the Small Business Assistance Program, or indirectly through an intermediary such as Dana Naye Venture.

6. Video Tape Instruction Seminars: it is recommended that the Yukon Territorial Government, in association with organizations such as the Chamber of Commerce and the FBDB, consider the development of a series of business seminar video tapes. These video tapes would be made available on a loan basis to individuals and businesses. The Business Development Office has recently begun development of such a program.

7. Management Assistance Program: in association with local Chambers of Commerce, the Yukon Territorial Government should consider the establishment of a management assistance program which would provide direct management consulting services to businesses located in rural areas.

8. Business Advisory Services by Local Businessmen: in conjunction with the local Chambers of Commerce, it is recommended that the Yukon Government consider the development of local business advisory committees, the purpose of which would be to provide advisory services to assist developing local businesses.

9. Incentives to Encourage Establishment of Rural Bank Branches: it is recommended that the Yukon Government continue its efforts to determine what incentives may be required to encourage the establishment of bank branches in rural areas. Should these efforts prove unsuccessful, it is further recommended that the Government give consideration to the establishment of a financial institution, similar to the Alberta Treasury Branches, which would have a mandate to provide financial services throughout the Yukon.

10. Local Agents: in rural communities where a bank branch would not be feasible, it is recommended that the Yukon Government support the appointment of local agents who would provide residents with deposit/withdrawal services, and possibly personal and loan services. The agents could represent the Yukon Government, although the preferred option would be to encourage one of the chartered banks to establish a system of agents.

11. Native Requirements: as native businesses tend to face many of the same financing related problems as firms owned by non-natives, it is recommended that current and proposed programs be reviewed in order to ensure that they meet the needs and are accessible to native businesses.

12. Placer Mining: should the Yukon Government decide that additional support is necessary for the placer mining industry, it is recommended the placer mining be made eligible for funding under the Small Business Loans Act, the Small Business Assistance Program, and other programs outlined in this report.

13. Duplication of Programs: the recommendations made above would overlap and partially duplicate a number of the current small business assistance programs. Therefore, before implementing these recommendations, it is recommended that the government conduct a thorough review of the proposed and existing programs in order to identify areas of overlap and duplication.

Even without the introduction of new programs, a strong argument can be made for conducting a more detailed examination of the overall organization and scope of small business assistance programs in the Yukon. As noted earlier, many individuals

interviewed during the course of the study were confused by the number of small business assistance programs, and expressed concern over the apparent duplication of services.

14. Non-Financial Issues: the study has identified a number of non-financial issues which can seriously restrict a small business's ability to obtain necessary financing. It is recommended that the government examine these issues in order to determine what measures can be taken to reduce the negative impact which they have on business financing. A list of the issues identified during the course of the study includes: lack of longer term cutting rights for forestry; difficulty in obtaining financing for business located on Crown owned land; difficulty in obtaining fire insurance in rural areas; the difficulty faced by small contractors in obtaining bonding; and the need to deal with a number of regulatory agencies in order to obtain required licenses and approvals.

The analysis and recommendations in the Access to Capital Study indicate an unhealthy financial services environment. All five major chartered banks have a presence in the Yukon but give the impression that they wish they were not there. At the same time, certain segments of the business and government community are clearly unhappy with the financial services, primarily related to credit, that are available. Reading between the lines

one could assume that most, if not all, banks are only marginally profitable and see little scope for growth. Yet none indicate that they will close.

If the financial institutions maintain the status quo one could expect caution and cost cutting or, perhaps, increased competition. These are the extreme business strategies available to them as they face a low growth market for their services. Individual histories, views of Yukon future economic development, regional and head office policies will dictate which direction is chosen. If one or more financial institutions chooses the aggressive, competitive approach to their Yukon operations, the financial needs of the business community should be better served than at present. The risks to the business community are greatest if the banks choose the conservative alternative which is implied in the study. Projects and proposals which require flexible terms or which involve a high degree of judgement on the part of a financial institution will suffer. It is generally easier, and safer for an officer's career to say "no" in such an environment. Personal attitudes and relationships are particularly critical in the granting of credit for new ventures.

SOPHISTICATION OF USERS

There are concerns that credit requests are poorly documented and poorly presented. Some of the reasons for this include: size of the enterprise;

lack of business education on the part of the entrepreneur; timing and general awareness of requirements. The Access to Capital study indicated that all these factors were present in the Yukon business community.

Generally, it is agreed that there are few problems with the access and delivery of financial services to expanding or mature businesses in the Yukon. These entrepreneurs have a history which can be evaluated in terms of viability, quality of product/service, ability to repay and understanding of the current economic environment. Private equity funding is often still scarce but insurance and normal banking services are readily available. So too are the various government assistance programs - both financial and non-financial.

The real difficulty lies with the emerging businesses. Typically, they are very small, designed to fit niches in the economy, and often in rural areas not well serviced by the financial institutions. Concerns have been expressed that the level of financial education is low, consequently poor financial presentation easily leads to the conclusion that management is weak, cash flow is not understood and personal risks may not be fully evaluated.

One of the responses available to the Yukon business community is to improve their level of preparedness in dealing with the financial institutions.

The study made recommendations to improve the current situation: business training and education, business advisory services and improved physical access to financial institutions. In our view, these suggestions are reasonable and it would be beneficial to go further and provide specific technical assistance resulting in a bona fide business plan. A significant contribution toward this end would be the development of a questionnaire type data gathering document. It could be tailored to demonstrate viability and both applicants and funding institutions (including government) should be prepared to cancel a non-viable project, based upon the questionnaire-type business plan.

GAPS IN SERVICES

The Whitehorse region is well serviced by financial institutions. The concerns relating to out-of-Yukon decision making are somewhat reduced by the competitive environment and the fact that the most transactions are within local authority levels. Areas outside Whitehorse are not so well serviced, and these account for about 25% of Yukon's business establishments, by number.

Services are provided by the CIBC through branches in Dawson City and Watson Lake and via a travelling bank with deposit/withdrawal services in Teslin, Haines Junction and Carmacks. These services are very important to the communities served but they are, by scope and authority, limited.

Critical among the missing services are working capital loans in the \$0 - \$40,000 range which are typically un or under secured. The remote locations make it difficult, if not impossible for normal commercial bank guidelines to be met. Accordingly, in the absence of personal knowledge and a well documented business plan, funding is not readily available for viable businesses outside the Whitehorse area.

Distances between communities will remain a problem in the delivery of adequate financial services. Technological development are addressing routine services through cost effective remote terminals for insurance and banking. Not addressed, however, is the need for financial (funding) services throughout the Territory. Current bank services - branches and travelling deposit/withdrawal - should be encouraged to continue. At the same time, an unconventional branch is required to provide a travelling commercial service to business communities outside Whitehorse. Such a service may be the only way that new businesses can develop and expand in more remote areas. Increased accessibility has a cost and it is improbable that the business generated for such a financial institution would be sufficient to justify the service on economic criteria alone. This has been recognized by the Yukon government which has recently announced a program to subsidize the CIBC to provide banking services to Mayo and Faro.

GOALS AND IMPROVEMENTS

The business community of the Yukon is different from other areas in Canada. It is a cliché to say it is unique - the businesses are not but their requirements are. This condition results primarily from two characteristics: small size and geographical location.

In addressing the needs of Yukon business it is desirable to keep financial institutions competitive in Whitehorse and exercise the accessibility of commercial financial services to the other principal communities. Whereas the economic development of most regions in the world is adequately serviced by financial institutions, the lack of recent growth and relatively poor near term outlook is restricting the investment plans of financial institutions in the Yukon. They must be encouraged to not retrench their present level of operations and, at the same time, be open to suggestions for increased services to businesses outside of Whitehorse.

Larger new developments and expansion projects of existing businesses are reasonably well served by the Yukon and British Columbia financial community. The focus for government attention, therefore, should be toward the emerging small businesses throughout the Territory. The goals for this effort would include:

- o identification of business opportunities

- o early assessment of entrepreneurial skills

- o development of questionnaire based business plans

- o evaluation of viability

- o description of success factors (training, financing, equity, etc.)
and realistic potential to achieve them.

- o early rejection of non-viable proposals.

The Yukon government may have to reorganize its programs to accomplish these goals but the net result should be a delivery system designed from the resources currently available. The Small Business Office appears to have an appropriate mandate to play a leading role in these developments, especially as they relate to providing or funding business/management assistance. Direct financial assistance, when recommended, would continue to be provided through the Yukon Ministry of Economic Development, Canada Regional Industrial Expansion and other government agencies.