

FINANCIAL RESOURCES
DRAFT ECONOMIC ENVIRONMENT
DISCUSSION PAPER

YUKON 2000

Disclaimer:

This discussion paper reflects the consultants viewpoints. It does not necessarily reflect the Yukon Government's viewpoints.

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April 1987

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1.0 INTRODUCTION

"For the government, the "bottom line" is improved opportunities in the economy. We are determined to avoid any temptation to concentrate on addressing symptoms. A sound strategy for development looks beyond symptoms to identify and remedy the basic weaknesses in the economy." (Nova Scotia,1984)

This quotation outlined the approach that the Nova Scotia government felt was needed to ensure the improved growth and development of their economy. And it is a sentiment shared by the people of Yukon. There is a need in the Yukon Economic Development Strategy to address problems at their source and to come to some agreement on the means to overcome these "weaknesses".

Several studies commissioned under the Yukon 2000 exercise and numerous submissions by Yukon citizens and groups during the course of the consultation have indicated that growth and development in the Yukon are being constrained by a fundamental weakness in Yukons financial system. There has been concern expressed that there is an insufficient stock of available financial capital, a lack of access to existing capital pools, misdirected government financial capital programming and reduced service and competition in the market place. These constraints increase the difficulties in establishing a viable business .

The purpose of this paper is to establish a set of goals and objectives to guide future direction of our financial resources system, to summarize the problems identified and to outline a possible strategy or strategies for improving the financial resources base of the Yukon. In particular, the paper will consider the desirability of establishing a regional financial institution such as an Alberta Treasury Branch system, discuss the merits of alternative financial measures to stimulate development and consider possible means to clarify and improve the delivery of existing government financial assistance programs. Special reference will also be made to the needs of native people to obtain better access to financial capital, and for women and youth to gain increased opportunities to establish businesses in the territory. The terms of reference that guide the study are included as Appendix A of the report.

Section 2 of the report outlines the goals and objectives that are proposed to focus the direction of our strategy. Section 3 will discuss the specific principles that might be used to guide government in the pursuit of its strategy, while Section 4 will outline the financial resources issues that constrain development. Section 5 provides information on the available tools to address the strategy from direct financial assistance

to indirect help. Finally, section 6 will layout proposed recommendations that will form the basis of a strategy for financial resource development. Throughout the paper, there will be a series of conclusion statements in italics that summarize discussions to that point.

The report is intended to build upon the research undertaken in Yukon over the past year including the Access to Capital Study, Assessment of Import Substitution Opportunities, the linkage studies under Yukon 2000 on small business and financial institutions and the comments provided by participants at the workshops and conferences. Information was also obtained from various federal and provincial government agencies, native people, certain private sector groups and a series of articles, reports and studies written in Canada and the U.S. over the past few years.

It must be noted, however, that the paper attempts to deal with the question of how the Yukon can improve its financial resources base which includes financial capital from government, financial institutions and individuals. The report does not deal with the question of addressing other fundamental problems in our business community including management training, long term entrepreneur development, market development, trade, business advise and assistance, paperburden and regulatory controls. These questions must be addressed through the creation of a business development strategy or through efforts in other components of the process to address these real concerns.

Sometimes there is a tendency for governments to place too much emphasis on direct financial assistance rather than attempting to deal with the full range of problems facing business and it is hoped that these other vital questions will be addressed in the final economic development strategy.

This paper is intended to stimulate discussion and debate amongst Yukoners and to provide a focal point to discuss possible future government policy. It is not is not intended to outline the definitive direction for Yukon's future. Once this paper has been presented and thoroughly discussed, then and only then will attempts be made to bring together a formal strategy for future development of Yukon's financial resource base.

2.0 GOALS AND OBJECTIVES

"The goals of an economic development strategy, in principle, are no different than the goals held by most individuals in society. Goals represent our ambitions for the future."(Yukon Development Strategy, 1986, pg7)

The Yukon Development Strategy discussion paper lays out the overall goals that the Yukon Government believes represents

the general direction that Yukoners wish to pursue with respect to economic development. These goals were reaffirmed in November, 1986 at the fall conference on the economy and now form the general structure for our future development.

In summary, the goals called for Yukoners to have the option to stay in the territory, for Yukoners to take more control of the future, for Yukoners to be able to achieve an acceptable quality of life and equality of opportunity, for Yukoners to have increased job opportunities, for there to be greater diversification of the economy and for Yukoners to have increased participation in all levels of decisionmaking.

This strategy builds upon these general goals by attempting to develop a financial resources program in the Yukon that will build on the simple basic goal of

"ENSURING THAT YUKON BUSINESSES, ENTREPRENEURS AND INDIVIDUALS IN ALL REGIONS AND SECTORS HAVE FULL ACCESS TO FINANCIAL CAPITAL AND ANCILLIARY FINANCIAL SERVICES."

Consistent with this general goal, the government proposes to develop policies and programs designed to modify the financial system in order to meet the following objectives, namely:

1. To ensure access to financial capital for both equity and long term debt.
2. To encourage increased competition by financial institutions.
3. To increase the financial services available in rural communities.
4. To remove impediments faced by native people in obtaining financial capital and ancillary financial services
5. To increase the opportunities for women, youth and handicapped to access financial capital.
6. To provide basic financial services, namely cheque cashing and deposit taking, in all Yukon communities.
7. To increase the stock of business entrepreneurs in Yukon, particularly in rural areas.
8. To encourage small scale and cooperative entrepreneurial activity, particularly at the local community level.
9. To encourage employees to become employers and where appropriate to attract entrepreneurs to establish in Yukon.

Concurrent with these objectives the financial system should be designed to achieve the broader business development objectives. Through improvements to the financial system in Yukon it is anticipated that:

1. New business development will be increased in all regions and sectors of the economy.
2. The number, quality and probability for success of new business ventures, expansions and modernizations in every region of the territory will be enhanced.
3. New investment in Yukon opportunities will be stimulated.
4. Production within Yukon of competitively priced goods and

services which in turn reduce the amounts imported from other regions will be encouraged.

These objectives lay out a direction that the Yukon Government wishes to pursue with respect to using our financial system to develop our economy. The objectives call for Yukon to pursue policies which place longer term permanent employment ahead of immediate job creation, which place business success ahead of business starts, which encourage the development of community as well as individual entrepreneurship, which promote rural business development in addition to Whitehorse and which encourage increased competition in the market place for financial services.

The objectives also indicate that individuals, communities and financial institutions will have a role to play in developing the economy and meeting the overall goals of the government as well as the specific goals of this area of our economy. And the objectives indicate that there is a special requirement by government to make efforts to remove impediments placed in the way of certain groups by the financial system which reduce their ability to actively participate in the business community of the Yukon.

3.0 STRATEGY PRINCIPLES

"These guidelines are not a departure from traditional means of designing and deciding on assistance measures, but they are set down here explicitly so that they can be widely known and understood."(Nova Scotia, 1984)

Yukon Government financial resources strategy is based upon the desire to have a healthy, competitive and self reliant private sector. In designing a strategy to meet the objectives that are proposed here, there is a need to establish principles or guidelines that will be used in the design, administration and review of government programs and measures suggested in the strategy.

In this strategy the nine major principles that will guide the recommendations are as follows:

1. PRIVATE SECTOR AS THE ENGINE OF DEVELOPMENT

The Yukon Government and the individuals who have participated in the development process to date all agree that Yukon's future growth and development will depend upon the individuals and entrepreneurs of Yukon and not upon government. Government already is a dominant force in the economy and most people believe that it should not take "too much control" and should "provide assistance to stimulate the economy". Therefore government programs will be directed at the supporting individual or community and not direct government investment, wherever possible.

2. REWARD SUCCESS

Any financial resources strategy must focus its programming in a manner intended to encourage the development of successful long term businesses with stable employment. It should bring special rewards to the successful businesses who create the long term jobs and stability required in the territory.

Success may be its own reward but government programming should ensure that it does not encourage proponents interested in "free money" or those who are unable to provide long term stability for the Yukon.

3. EQUALIZE THE OPPORTUNITY TO PARTICIPATE

Government programs must recognize that certain groups and organizations face impediments to successfully accessing financial capital markets. Therefore, a financial resources strategy must provide added encouragement for greater participation by these groups. This may mean the development of specific programs, such as the programs specifically designed to assist natives or to make existing programs more responsive to the special requirements of these groups.

The emphasis, however, must be on developing means for these individuals and groups to help themselves.

4. SUPPORT COMMUNITY AND INDIVIDUAL ENTREPRENEURISM

Government programs should build on the inherent strengths of local communities by developing local business skills and providing avenues for local workers to obtain employment without permanently leaving the community. This principle calls for government to be more responsive to the inherent talents available in communities and to make efforts to support development from both the individual and community or group level.

5. REGIONAL AND SECTORAL EQUALITY

Programs designed to assist the economy should be available to all economic sectors, and to every region. Possibilities exist for developing successful products and services in many industries and in every region of the territory. It is a mistake to think that opportunities exist only in a select group of economic sectors. In the Yukon, government should not try to pick winning sectors but rather search for success wherever it may exist.

Government policy to date has keyed on sectoral problems facing the economy, to the disadvantage of Yukon's rural communities.

Any financial resources strategy must recognize these problems and assist businesses to increase their contribution to the

economy. Funding levels may vary according to the specific need of a sector or region but no possibilities should be ignored.

6. SHORT TERM NOT LONG TERM ASSISTANCE

Government financial assistance should be in place for a fixed period and be as short as possible in duration. Long term financial assistance by government is less likely to generate long term growth and development and will quite likely impose a considerable expense on the taxpayer.

7. PRIVATE FINANCIAL MARKETPLACE FIRST

Government assistance should be designed so that maximum possible use is made of the private financial marketplace. Government should attempt to stimulate the private financial system to respond to the needs of Yukoners to the fullest extent possible and devise government programming which minimizes its overlap with the functions of these private sector financial institutions. This approach will ensure that scarce public funds are used most effectively.

8. SIMPLICITY OF PROGRAM DESIGN

Government financial assistance programs must be designed to provide the most direct benefit to the proponent with the least amount of administrative cost and regulatory control. The concept here must be "If there are existing structures available, use them. Don't create new structures". If some structures can be amalgamated, amalgamate them. If the processes can be streamlined, do so."

Simplicity of program design also means that government must make a special effort to design the programs to be as easy as possible to understand and access. For example, if a simple bank loan guarantee will provide the assistance required then don't establish a separate government body to approve the loan guarantees or if a simple interest rebate program will provide the desired impact of a more complicated low interest loan program, then implement the interest rebate.

If the goal is to encourage business development at all levels, then government programs should not be designed to create extra barriers for the small business person.

9. REASONABLE PAYBACK PERIOD

Government should approach the provision of financial resources to business from an investment perspective in which they anticipate a reasonable payback on their funding through increased tax revenues and associated economic and social benefits.

Firms who receive financial assistance are expected to provide

a competitive service or product and make profits. When a firm is earning a profit, it becomes liable for payment of corporate income tax. As well, the employees of this successful firm also become liable to pay taxes and /or no longer must receive government assistance in the form of welfare or unemployment payments.

The government should only implement those programs where there is reasonable evidence that over time the tax income and reduced government costs will exceed what the government has spent on assistance.

4.0 WHY DO WE NEED A STRATEGY FOR FINANCIAL RESOURCES DEVELOPMENT?

"There was concensus that existing institutions do not provide an adequate level of service to all Yukoners, especially those living in rural areas." (Yukon Development Strategy-Fall Conference, p20)

This quotation provided by participants to the Fall Conference on Yukon's economy reinforces one of the major concerns by small business in Yukon, namely access by business to financial capital, both debt and equity. This concern has been reiterated in several forums and was a major focus of a study on "Access to Capital"(IMC,1986). It is the most significant reason for government to give serious consideration to the development of a strategy for development of financial resource base of the territory.

While insufficient access to capital is a serious concern, there are several complementary constraints identified by local business people, business representatives and government officials which need to be addressed in the context of financial resources development. These problems include: access to equity and long term debt capital, poor cash flows in the early years, operating disadvantages, marketing concerns, an insufficient stock of entrepreneurs adverse community impacts and government programming constraints.

In order to be in a position to suggest a potential strategy for development of Yukon's financial resources, there is a vital requirement to outline these constraints to business development and to discuss briefly the consequences for the business community.

4.1 ACCESS TO CAPITAL TO ESTABLISH FIRMS

"There appears to be a general concensus that certain businesses in Yukon face special difficulties in accessing capital."(IMC,1986)

While there are very great difficulties in analysing the banking industry in Yukon due to the lack of precise and

appropriate data from both bank and government sources, there is conflicting evidence regarding the access of business to financial capital and the role of established banking institutions in the Yukon.

Previous studies have indicated that there are significant problems of business access to capital. However, from data and interviews held during the research for this study, it seems that business in Yukon today has quite good overall access to capital. This is even more true since the recent Yukon government announcements of major increases in funding for business in the 1987/88 fiscal year and the recently announced Canada/Yukon Small Business Subsidiary Agreement.

Yukon also appears to have a vibrant and strong business community able to successfully withstand the problems of economic recession. Table 1 provides a series of business indicators on Yukon businesses in relation to other regions. These indicators show that overall profitability by Yukon firms was good in 1983, at the height of Yukon's recession and much better than other regions such as the NWT where the general economic situation was much better. Average profitability per firm was higher than Canada as a whole and the return on owner equity was reasonable. Yukon's performance was also considerably better than that occurring in the NWT where losses were significant during that year.

Nonetheless, the research does identify specific areas where funding should be targeted to improve access to financial capital by various groups and regions of the territory. There were differences in access to capital between new and existing businesses, between rural and urban businesses, between natives and non natives and between special groups and traditional entrepreneurs.

In addition, Table 1 appears to confirm the concerns of many entrepreneurs and citizens in Yukon over the size of debt being carried by firms. These concerns need to be analysed and addressed.

The level and quality of service provided by the established financial institutions has also been questioned by many Yukoners participating in the workshops and by Yukoners questioned during a recent visit by Treasury Branch officials to rural communities.

4.1.1 Insufficient Capital Pool

In reviewing the data available from the banking community, it would appear that the financial institutions have taken a fairly strong position in the territory in the past few years. Tables 3 to 7 summarize the situation.

Table 3 shows the total outstanding value of loans held in the North, with breakdowns for Yukon and the Northwest

TABLE 1
BUSINESS INDICATORS IN SELECTED REGIONS BY FIRM SIZE
(1983)

REGION	REVENUE GROUP						TOTAL
	<50,000	50,000 TO 99,999	100,000 TO 249,999	250,000 TO 499,999	500,000 TO 999,999	1,000,000 TO 1,999,999	
CANADA							
#of firms	300,248	129,402	137,008	72,730	46,781	26,575	712,924
Average profit(loss)/firm	3,802.21	7,866.35	9,430.99	15,210.17	24,201.00	37,273.93	9,369.77
Debt/Equity Ratio	1.82	1.90	2.75	3.00	2.86	2.69	2.61
Current Ratio	1.55	1.53	1.36	1.33	1.35	1.35	1.38
Net Income/Equity	27.28	30.33	25.32	23.71	20.34	16.50	23.13
YUKON							
#of firms	469	137	169	84	94	67	1,020.00
Average profit(loss)/firm	4,759.06	6,262.77	16,136.09	32,654.76	30,595.74	13,149.25	12,075.49
Debt/Equity Ratio	0.89	5.70	1.61	2.75	4.38	4.31	2.82
Current Ratio	2.12	1.18	1.62	1.36	1.23	1.23	1.35
Net Income/Equity	25.83	45.67	20.69	45.43	31.46	9.77	25.71
NWT							
#of firms	535	230	325	215	151	124	1579
Average profit(loss)/firm	(2564.49)	(8,834.78)	3,461.54	(8358.14)	26,006.66	(74580.64)	(5951.23)
Debt/Equity Ratio	2.69	0.91	2.36	0.98	0.92	3.48	1.83
Current Ratio	1.37	2.09	1.42	2.00	2.08	1.29	1.55
Net Income/Equity	(12.30)	(6.40)	2.75	(2.49)	3.37	(9.23)	(2.52)

SOURCE: STATISTICS CANADA "SMALL BUSINESS IN CANADA, 1983:PROVINCIAL DISTRIBUTIONS"

TABLE 2
 BUSINESS INDICATORS BY SECTOR
 YUKON
 1983

SECTOR	#OF FIRMS	AVERAGE PROFIT PER BUSINESS	DEBT/EQUITY RATIO	CURRENT RATIO	NET INCOME/ EQUITY RATIO
ALL INDUSTRIES	1020	12,075.00	2.82	1.35	25.71
FORESTRY	X	X	X	X	X
MINING	35	30,000.00	0.96	2.06	58.68
MANUFACTURING	X	18,222.00	1.87	1.54	66.77
CONSTRUCTION	173	3,144.00	2.48	1.40	6.52
TRANSPORTATION COMMUNICATIONS	146	4,842.00	4.73	1.21	15.65
WHOLESALE TRADE	43	22,860.00	2.03	1.49	50.07
RETAIL TRADE	269	9,762.00	1.77	1.56	17.41
REAL ESTATE	45	26,089.00	2.70	1.37	15.76
BUSINESS AND PERSONAL SERVICES	281	16,932.00	5.32	1.19	64.37

SOURCE: STATISTICS CANADA "SMALL BUSINESS IN CANADA, 1983: PROVINCIAL DISTRIBUTIONS"

NOTE: Totals for manufacturing were not reported so the data on firms in the \$100,000 to \$249,999 cell were used as this cell had more than half of all the firms reported.

Territories (NWT). Yukon businesses have outstanding loans totalling \$40.8 million in 1986 compared to \$98.2 million for Northwest Territories firms. This amounts to an average per business obligation of \$36,106 in the Yukon and \$53,514 in the Northwest Territories. In PEI the per business obligation is \$24,557 and in all of Canada it stands at \$91,436. The Yukon tends to have more small loans outstanding than in the NWT, while the NWT has more loans in the \$1 million and greater category, reflecting the presence of the oil companies, large transportation concerns and large infrastructure expenditures.

Table 3 the commercial banks appear to have become more active in recent years. Table 3 shows outstanding debt going from \$25 million in all of the North in 1975 to over \$139 million in 1986, a five fold increase, with a large measure of that increase occurring in the last few years.

The data also tends to show that commercial banks in the North provide a greater percentage of available funding to smaller businesses than is the case in other parts of Canada. The only available information comparing the numbers of small businesses across Canada by employment size is in the Statistics Canada publication "Employment Creation By Province, Industry Classification, Firm Size and Life Status." This publication indicates that Yukon has a comparably sized small business community to other regions with 82.5% of its firms with fewer than 20 employees. This compares to the NWT which has 83.3% in this category while Alberta has 91.4%, BC has 92.6% and Canada has 91.8%.

However, the Bank of Canada Review information in Table 3 indicates that commercial lenders in Yukon provided a larger proportion of their available funding to smaller businesses. Yukon firms had 59.5% of their outstanding debt in loans of less than \$200,000 while in the Northwest Territories 47% of their loans were in this category, in Alberta 8.5% of the loans were in this category, in BC there were 23.8% in the category and in PEI there were 34.9% in this category. For Canada as a whole, only 17.7% of all loans were for less than \$200,000.

Recent bank data and surveys (CBA 1982, CFIB 1982 and 1985) indicate that the vast majority of small businesses in Canada are generally satisfied with their dealings with chartered banks. In Yukon the only data available is from a 1982 Survey of Business by the Canadian Federation of Independent Business. In this study where 143 businesses comprising 10% of the business community responded, it was reported that 78.5% of all businesses were satisfied with their bankers. This compares with a satisfaction level of 73.6% for the country as a whole. In a followup study in 1985 by the CFIB the results showed an overall decline in satisfaction with the banks of approximately 2%. The study did not publish data on Yukon's business community response due to an insufficient sample

TABLE 3
OUTSTANDING LOANS TO BUSINESS
IN THE NORTH
(\$000,000)

YEAR	YUKON					NWT					TOTAL				
	<0.2 (\$,000,000)	0.2-0.5	0.5-1.0	>1.0	TOTAL	<0.2 (\$,000,000)	0.2-0.5	0.5-1.0	>1.0	TOTAL	<0.2 (\$000,000)	0.2-0.5	0.5-1.0	>1.0	TOTAL
1986	23.80	6.90	5.20	4.90	40.80	46.20	18.10	10.80	23.10	98.20	70.0	25.0	16.0	28.0	139.0
1985	19.90	7.10	5.70	6.30	39.00	43.10	14.90	10.30	27.70	96.00	63.0	22.0	16.0	34.0	135.0
1984	17.97	5.76	4.52	4.63	32.88	36.84	13.67	8.70	20.91	80.12	50.0	19.0	12.0	33.0	113.0
1983	13.04	4.18	3.28	3.36	23.86	26.73	9.92	6.31	15.17	58.14	36.0	15.0	12.0	19.0	82.0
1982	15.26	4.90	3.84	3.94	27.94	31.30	11.62	7.39	17.76	68.06	40.0	16.0	12.0	27.0	96.0
1981	12.88	4.13	3.24	3.32	23.57	26.41	9.80	6.24	14.99	57.43	36.0	14.0	13.0	18.0	81.0
1980	14.79	4.74	3.72	3.81	27.06	30.32	11.25	7.16	17.21	65.94	34.0	35.0		24.0	93.0
1979	11.45	3.67	2.88	2.95	20.95	23.47	8.71	5.54	13.32	51.05	32.0	27.0		13.0	72.0
1978	9.06	2.91	2.28	2.34	16.59	18.58	6.90	4.39	10.55	40.41	29.0	21.0		7.0	57.0
1977	7.47	2.40	1.88	1.93	13.68	15.32	5.69	3.62	8.70	33.32	21.0	16.0		2.0	47.0
1976	5.25	1.68	1.32	1.35	9.60	10.76	3.99	2.54	6.11	23.40	16.0	11.0		3.0	33.0
1975	3.98	1.28	1.00	1.03	7.28	8.15	3.03	1.93	4.63	17.73	12.0	6.0		2.0	25.0

SOURCE: BANK OF CANADA REVIEW, 1975-86; CANADIAN BANKERS ASSOCIATION

NOTE: DATA IS FROM THE OUTSTANDING ACCOUNTS AS OF DECEMBER OF EACH YEAR
 DATA FOR YUKON AND NWT ARE ACTUAL TOTALS SUPPLIED BY THE CANADIAN
 BANKERS ASSOCIATION. THE DATA FOR THE YEARS 1975-1984 ARE ESTIMATES
 BASED ON THE ASSUMPTION OF A SIMILAR BREAKDOWN IN ACCOUNTS OVER THE
 YEARS.

size, but CFIB staff involved in the survey did indicate that Yukon businesses also had a lower satisfaction level. However, the decrease was not as great as was the case for the country as a whole.

The Federal Business Development Bank and Canada's Small Business Loans Act have also been active in the territory, especially in recent years. Tables 4 to 7 provide a picture of this activity. Table 4 indicates that FBDB was active in Yukon for more than a decade and has maintained a debt portfolio ranging from \$9.4 to \$15.3 million per year. From Table 5 you can see that the portfolio is on average higher than the debt portfolio held in the more populous and until recently more prosperous regions of NWT and PEI.

On the basis of amount of loans outstanding per business, Yukon had \$657 per business in 1984 versus \$661 per business in the NWT, \$143 per business in PEI and \$2310 per business in Canada as a whole. Moreover, when looking at the dramatic declines in FBDB financing across Canada in the early 80's, it is clear that the declines in financing in Yukon were not as severe as those felt in the country as a whole or the other two small regions.

Tables 7 also indicates that the Banks have substantially increased their use of the federal government's Small Business Loans Act as a means to reduce risk and support small business. Loan guarantees have gone from none in 1974 to 65 in 1985 and have reached as high as 135 loans in a single year, with the total value of loans guaranteed amounting to almost \$13 million. Loans guaranteed under the program come largely from service businesses (40.9%), transportation (23.7%), construction (12.9%) and retail (10.9%) establishments. Furthermore, almost 80% of all the loans guaranteed under the program are for movable equipment, such as trucks, caterpillar tractors, etc, which are hard to find and repossess if there is a default in the loans. Slightly more than 18% of the loan guarantees went to construct or renovate premises, usually in rural communities and less than 4% of loan guarantees had to be provided to project for fixed equipment and land.

If we assume that the Small Business Loans Act can be taken as an indication of the support by established bankers to the business community, it is clear that the major business bankers for Yukon are the Bank of Montreal, the Toronto Dominion Bank and the Canadian Imperial Bank of Commerce. These institutions have provided over 84% of all guaranteed business loans. Surprisingly, however, the Canadian Imperial Bank of Commerce (CIBC), "Canada's northern banker", is not using the loans guarantee program as heavily as other banks, despite being the largest lender in the North.

The Indian Economic Development Fund has also been active the early 70's providing loans to more than 90 applicants, with a value of more than \$1.3 million. The Yukon Governments new

TABLE 4
LOANS AND LOAN GUARRANTEES
APPROVED BY FEDERAL AND YUKON GOVERNMENT PROGRAMS
1975-1986

YEAR	FEDERAL BUSINESS DEVELOPMENT BANK		INDIAN AND INUIT LOAN FUND		YUKON LOAN ASSISTANCE		DANA NYE		TOTAL		SMALL BUSINESS LOAN GUARANTEE							
	#	VALUE (\$,000)	AVERAGE LOAN SIZE	#	VALUE (\$,000)	AVERAGE LOAN SIZE	#	VALUE (\$,000)	AVERAGE LOAN SIZE	#	VALUE (\$,000)	AVERAGE LOAN SIZE	#	VALUE (\$,000)	AVERAGE LOAN SIZE			
1986	36	9058.0	251.6	7	222.8	31.8	16	641.0	40.1	11	341.3	28.6	70	10263.1	146.62	NA	NA	NA
1985	17	2917.0	171.6	5	172.5	34.5	16	737.9	46.1	26	186.2	7.2	64	4013.5	62.71	65	1901.9	29.3
1984	11	1274.0	116.3	4	80.0	20.0	3	53.1	17.3				18	1407.1	78.17	135	3198.7	23.7
1983	20	1084.0	54.2	2	41.0	20.5							22	1125.0	51.14	59	1492.7	22.3
1982	22	2113.0	96.0	1	50.0	50.0							23	2163.0	94.04	35	1031.4	29.5
1981	27	3750.0	138.9	8	135.0	16.9							35	3885.0	111.00	49	1832.0	37.4
1980	54	3480.0	64.4	5	96.0	19.2							59	4476.0	75.86	35	1105.5	31.6
1979	34	4236.0	124.6	6	125.0	20.8							40	4361.0	109.03	37	1280.1	34.6
1978	20	1910.0	95.5	8	63.0	7.9							28	1973.0	70.46	15	750.1	50.0
1977	25	3903.0	156.1	13	83.0	6.4							38	3986.0	104.89	4	102.5	25.8
1976	36	2218.0	73.9	16	137.0	8.6							52	2355.0	45.29	7	132.5	18.9
1975	29	2278.0	78.6	19	107.0	5.6							48	2385.0	49.69	4	81.0	20.3
TOTAL	325	38221.0	117.6	94	1312.3	14.0	35	1431.0	40.9	37	627.5	17.0	497	42392.7	85.30	445	12907.9	29.0

SOURCES: ANNUAL REPORTS (VARIOUS) FROM DIAND, FBDB, SBLA, YUKON ECONOMIC DEVELOPMENT AND DANA NYE

- NOTES: 1. Prior to 1975 the Small Business Loan Act guaranteed only 2 loans totalling \$31,000.
 2. Between 1962 and 1974, the Federal Business Development Bank, under the name Industrial Development Bank, granted 256 loans at a value of \$15,180,000.
 3. Yukon's Loan Assistance Program did not commence operations until 1984 and Dana Nye commenced operations in 1985.
 4. If an agency reported the totals for the fiscal year they were reported as the previous calendar year. (eg. 1986/87 reported as 1986)

TABLE 5
DISTRIBUTION OF FEDERAL BUSINESS DEVELOPMENT BANK ACCOUNTS
1975-1985

YEAR	YUKON		NORTHWEST TERRITORIES		PRINCE EDWARD ISLAND		CANADA	
	#	VALUE (\$,000)	#	VALUE (\$,000)	#	VALUE (\$,000)	#	VALUE (\$MM)
1985	93	15,303.0	79	7,481.0	138	4,610.0	17442	1,646.7
1984	99	13,231.0	116	9,639.0	179	5,308.0	20292	1,594.7
1983	117	13,786.0	142	13,906.0	239	7,042.0	24741	1,649.5
1982	127	14,615.0	176	16,094.0	299	9,018.0	31147	1,876.2
1981	133	14,890.0	187	15,242.0	311	10,081.0	35076	2,022.1
1980	143	14,592.0	173	12,866.0	334	10,511.0	38270	2,072.7
1979	142	14,344.0	160	10,985.0	346	10,859.0	39947	2,048.6
1978	124	11,983.0	135	8,808.0	319	9,679.0	35376	1,657.5
1977	127	10,412.0	130	7,540.0	289	8,030.0	33224	1,493.8
1976	131	9,985.0	130	7,113.0	259	7,710.0	31925	1,414.6
1975	131	9,375.0	129	6,790.0	239	7,241.0	29274	1,277.0

SOURCE: FEDERAL BUSINESS DEVELOPMENT BANK ANNUAL REPORTS, 1975-1985

TABLE 6
FEDERAL BUSINESS DEVELOPMENT BANK APPROVALS FOR VARIOUS REGIONS
1975-1986

YEAR	YUKON		NORTHWEST TERRITORIES		PRINCE EDWARD IS		CANADA	
	#	VALUE (\$,000)	#	VALUE (\$,000)	#	VALUE (\$,000)	#	VALUE (\$,000)
1986	36	9,058.0	19	2,342.0	13	945.0	4100	718,827.0
1985	17	2,917.0	12	1,545.0	15	1,034.0	2878	526,757.0
1984	11	1,279.0	17	3,725.0	15	953.0	2157	321,172.0
1983	20	1,084.0	24	4,510.0	25	1,398.0	3436	370,477.0
1982	22	2,113.0	60	5,790.0	28	1,549.0	4630	475,973.0
1981	27	3,750.0	66	4,180.0	62	1,724.0	7968	484,039.0
1980	54	3,480.0	60	3,950.0	132	3,730.0	16571	866,432.0
1979	34	4,236.0	36	2,864.0	101	3,562.0	12271	668,593.0
1978	20	1,910.0	36	2,170.0	85	2,573.0	9908	479,324.0
1977	25	3,903.0	29	1,817.0	66	2,201.0	9311	424,076.0
1976	30	2,218.0	61	2,610.0	65	1,654.0	10088	454,653.0
1975	29	2,278.0	51	1,932.0	57	1,561.0	9461	401,404.0

SOURCE: FEDERAL BUSINESS DEVELOPMENT BANK ANNUAL REPORTS: 1975-1986

TABLE 7
SMALL BUSINESS LOANS ACT LOAN GUARANTEES IN YUKON BY BANK
1975 TO 1985

YEAR	BANK OF MONTREAL		NOVA SCOTIA		ROYAL BANK		TORONTO DOMINION		CANADIAN IMPERIAL BANK OF COMMERCE		TOTAL	
	#	VALUE	#	VALUE	#	VALUE	#	VALUE	#	VALUE	#	VALUE
1985	21.0	556.6	0.0	0.0	4.0	206.9	16.0	492.0	24.0	646.4	65.0	1,901.9
1984	32.0	738.0	5.0	155.6	12.0	336.9	56.0	1,291.5	30.0	676.5	135.0	3,198.7
1983	30.0	800.6	2.0	45.0	3.0	66.8	20.0	432.7	4.0	147.1	59.0	1,492.2
1982	16.0	428.4	1.0	16.5	7.0	192.4	6.0	319.8	5.0	74.3	35.0	1,031.4
1981	28.0	1,033.3	2.0	107.0	6.0	176.0	9.0	310.7	4.0	205.0	49.0	1,831.9
1980	20.0	531.5	0.0	0.0	4.0	109.6	8.0	349.2	3.0	115.2	35.0	1,105.5
1979	12.0	464.6	1.0	11.2	9.0	150.7	15.0	653.6	0.0	0.0	37.0	1,280.0
1978	2.0	89.6	1.0	25.0	1.0	7.4	10.0	570.6	1.0	57.5	15.0	750.0
1977	0.0	0.0	1.0	29.0	1.0	7.5	2.0	66.0	0.0	0.0	4.0	102.5
1976	0.0	0.0	0.0	0.0	5.0	52.5	2.0	80.0	0.0	0.0	7.0	132.5
1975	0.0	0.0	4.0	81.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0	81.0
TOTAL	161.0	4,642.6	17.0	470.3	52.0	1,306.7	144.0	4,566.1	71.0	1,922.0	445.0	12,907.6

SOURCE: SMALL BUSINESS LOANS ACT ANNUAL REPORTS, 1975-1985

Loan Assistance Program has assisted 35 applicants in the past two and half years and given out more than \$1.4 million in loans, while the private sector firm Dana Nye Ventures has extended loans to 37 clients, worth over \$630,000.

In addition to the positive response of the banks and government loan programs, there has been a phenomenal increase in other business financial assistance programs by both levels of government. Table 8 illustrates the growth in the number and size of programs. The table shows that total expenditures has grown from \$5.4 million in 1980 to more than \$17 million in 1986. Eliminating FBDB funding there has been an increase from five programs in 1980 extending less than \$2 million for tourism, manufacturing and native business development projects to over 20 programs in 1986 providing direct financial assistance of more than \$8 million across a whole spectrum of industries and groups. A further expenditure of \$4.1 million is also expected in 1987/88 from four new programs announced by the Yukon government in the recent capital budget.

This level of funding will bring the average assistance per business to almost \$8,000 and is substantially above the anticipated \$1.7 million in tax revenues for 1986. In fact, the direct financial assistance to business in 1986 alone totals more than the entire taxes paid by businesses in the past five years.

As well, there has been a strong increase in the numbers of indirect financial assistance programs and tax plans. There have been 17 major indirect programs identified in 1986, only one of which existed in 1980. Total expenditures for these programs, which include energy subsidies, infrastructure assistance, wage and training subsidies and tax breaks are conservatively estimated to be between \$9 and \$10 million in 1986.

"This pool of funds from banks and government would tend to reduce concerns of insufficient stock of overall financial capital to meet the needs of business."

Measured against this positive aspect of Yukon's financial community are several key concerns with respect to obtaining access to financial capital. First, there is the often expressed concern amongst communities that there is declining competition amongst banks and that further rationalization of the banking system is possible. Yukon has seen the number of bank branches decline significantly in the past few years with the closure of 1 urban and 2 rural branches, the withdrawal of a trust company, and the bankruptcy of a credit union. The FBDB offices have also changed status from a suboffice to full branch to suboffice on two occasions in recent years. The Canadian Imperial Bank of Commerce now remains the only bank now operating branches outside of Whitehorse, whereas in 1978 three of the banks had branches outside of Whitehorse.

TABLE 8
TOTAL EXPENDITURES ON MAJOR DIRECT BUSINESS FINANCIAL ASSISTANCE PROGRAMS
IN THE YUKON FOR THE PERIOD 1980/81 TO 1985/86

PROGRAM	EXPENDITURES(\$,000)						
	80/81	81/82	82/83	83/84	84/85	85/86	86/87
A. FEDERAL/YUKON							
1. MINE INDUSTRY						3,000.0	
2. SMALL BUSINESS*							
3. RENEWABLE RESOURCES	NA	NA	NA	0.0	0.0	210.4	557.9
4. TOURISM	1,175.0	2,143.3	1,533.3	2,090.0	1,370.6	1,022.4	1,482.9
B. YUKON							
1. VENTURE CAPITAL*							
2. COMM. ECON. DEV. *							
3. REN. RES. COMM. DEV. *							
4. TRADE SHOW ASS.							28.8
5. PROSPECTORS ASS.							88.5
6. MINERAL EXPLORATION							980.0
7. OPPORTUNITY IDENT.					60.0	NA	107.8
7. LOAN ASSISTANCE					52.1	737.9	641.0
C. FEDERAL							
1. NEDP						NA	2,600.0
2. LEAD (DANA NYE)						258.4	342.3
3. FARM CREDIT CORP.					-----160.0-----	-----	355.7
4. PEMD				2.3	23.7	24.4	19.2
5. RDIA/IRDP			107.0	58.9	1,736.2	82.9	11.9
6. SPECIAL ARDA	431.0	988.0	692.0	863.0	524.0	680.0	419.0
7. IEDF (LOANS)	96.0	135.0	50.0	41.0	80.0	172.5	222.8
8. IEDF (CONTR.)	218.0	217.0	180.0	123.0	167.0	107.0	183.0
SUBTOTAL	1,920.0	3,483.3	2,562.0	3,202.3	4,206.4	6,320.9	8,060.4
D. FEDERAL BUSINESS DEVELOPMENT BANK							
	3,480.0	3,750.0	2,113.0	1,084.0	1,279.0	2,917.0	9,058.0
TOTAL	5,400.0	7,233.3	4,675.3	4,286.3	5,485.4	9,237.3	17,118.4

SOURCES: DEPARTMENTAL OFFICIALS AND ANNUAL REPORTS, VARIOUS

- NOTES: 1. Data for 1986/87 covers the first nine months to December 31, 1986
2. *denotes that program commences April 1, 1987
3. The tourism subsidiary agreements consist of the Canada/Yukon tourism agreement from 1980-83 which flowed funds until April, 1984, the interim Canada/Yukon tourism agreement in 1983/84 and 84/85, the Yukon facilities program in 1984/85 and the new Canada/Yukon tourism agreement.
4. NEDP-Native Economic Development Program, LEAD-Local Employment and Development Program of Employment Canada, PEMD-Program for Export Market Development
IEDF-Indian and Eskimo Development Fund, RDIA/IRDP- Regional Development and Industrial Adjustment/Industrial and Regional Development Program, and SPECIAL ARDA-Agriculture and Rural Development Agreement

The major commercial bankers are seeing loss rates rise, profits decline and competition from foreign institutions and near banks erode their traditional market power. As Leboe wrote in his linkage study to the Yukon 2000 Fall Conference "the Yukon is affected, but not favorably, by the changes and new developments in the financial services industry" and that "plans should be made to compensate for the rationalization of financial institutions ".(Leboe,1986)

"These withdrawals of service reduce availability and competition, particularly in rural areas and can cause potential long term problem for Yukon. The Yukon government will be the need to foster and encourage continued competition amongst the existing banking fraternity in order to maintain a sufficient pool of private debt capital for Yukon business."

Second, staff working on the 1985 CFIB study reported that more than 1 in 5 businesses in Yukon were dissatisfied with certain banking practices. These concerns are common to every part of Canada and have been identified in several recent studies of business activity in Canada (Ontario, Alberta, 1985, DRIE, 1986) and at several workshops and conferences on the Yukon economy.

These concerns by Yukon business people were: lack of bankers in the organization knowledgeable about Yukon's economy and business environment, local bank managers with credit authorities that were too low, a rapid turnover of loans officers and managers, an excessive and often arbitrary requirement for collateral, and a lack of competition with near banking institutions. Many businesses also feel that the bank values "realizable assets" too conservatively and tends to price loan levels inconsistently between clients.

There is no way at present to find out information to confirm or deny any of these concerns in Yukon. A small sampling of bankers questioned in BC during the course of this research appeared to confirm a lack of knowledge on the status of Yukon's economy. There was also an indication that many rural communities throughout Canada may be feeling the adverse impacts caused by decisions being made from major regional centres and that the realizable assets test may be very conservative.

Collateral on the otherhand, they indicated, is an essential requirement of prudent banking and they presented evidence from a nationwide University of Western Ontario study that showed collateral pledged by the company's represented only 33% of the outstanding loan value.(Hatch,1982) The Task Force on Small Business Financing/Banking Issues reported in October 1986 that "the amount of collateral required often appears arbitrary", particularly for new businesses: but the Task Force offered few solutions to the problem.(DRIE,1986,pg13) The quickest way to impact on the collateral request of course is to obtain greater equity financing or loan guarantees.

"The Yukon government's strategy should attempt to encourage financial institutions to devise means to improve the service they supply to the customer."

4.1.2 Physical Access to Capital

Notwithstanding the preceding commentary regarding the general accessibility of business to financial capital, there remains several serious imbalances in the availability of capital to certain regions and groups. Rural entrepreneurs, natives, women and youth all face problems related to physical access to financial capital.

Previous studies conducted on access to capital in Yukon and officials interviewed this research all agreed that rural firms, especially those establishing new businesses face several impediments to accessing capital. Rural businesses are usually harder to monitor by the banking community, often have less collateral because the "realizable value" of their assets is extremely low, have more trouble accessing insurance, often have less available equity and often have to travel great distances to access the broad range of financial services available in Whitehorse.

Access to the banking system from rural communities is more costly, both in time and money due to the need to commute and can be detrimental to the local business community who see their potential business being diverted to Whitehorse, where the banking services exist.

Finally, rural businesses are more directly affected by adverse economic fluctuations and tend to have a more volatile profits history (Gagnon, Papillon, 1984).

Table 9 illustrates the financial problem faced by the rural entrepreneur in accessing funds. Bankers contacted point to a rural loans split similar to that of FBDB. FBDB data shows that of 55 loans given out in the period April 1, 1985 to February, 1987, there were 39 (71%) in Whitehorse, 8 (14.5%) in Dawson City and Watson Lake and 8 (14.5%) to the remaining 12 Yukon communities. Moreover, of the \$12,970,000 provided in loans during the period, less than \$500,000 went to those communities without banking facilities. The lions share of the funds went to Whitehorse (78.6%), with Dawson City and Watson Lake receiving (17.8%). This means that communities with 13.6% of the business establishments received 3.5% of the funds approved by FBDB in the past two years. Some agencies such as the Farm Credit Corporation, in fact, have given a number of rural loans but few of the loans are for projects outside of a 70 mile radius of downtown Whitehorse.

The Yukon Governments Loan Assistance Program and the EDA projects have funded projects almost equally between rural and urban applicants, while Special ARDA has funded more urban

TABLE 9
 LOANS, GRANTS AND CONTRIBUTIONS DISTRIBUTED BETWEEN WHITEHORSE AND RURAL COMMUNITIES
 1985/86 AND 1986/87

PROGRAM	WHITEHORSE	RURAL	TOTAL	WHITEHORSE	RURAL	TOTAL
A. FEDERAL						
1. FBDB	14	5	19	25	11	36
2. NEDP	0	0	0	3	0	3
3. FARM CREDIT CORP.	0	0	0	0	6	6
4. IRDP	1	2	3	1	0	1
5. IEDF	NA	NA	NA	NA	NA	NA
B. YUKON						
1. LOAN ASSISTANCE	8	8	16	15	8	23
2. PROSPECTORS ASS.	0	0	0	NA	NA	18
3. MINERAL EXPLORATION	0	0	0	NA	NA	32
4. OPPORTUNITY IDENT.	NA	NA	NA	9	3	12
C. CANADA/YUKON						
1. SPECIAL ARDA	NA	NA	NA	28	12	40
2. TOURISM	7	16	23	11	13	24
3. RENEWABLE RESOURCES	9	6	15	15	8	23
D. PRIVATE						
1. DANA NYE	4	7	11	7	19	26

SOURCE: DISCUSSIONS WITH OFFICIALS

NOTE: The split between rural and urban was determined based on the residence of the applicant and not on the location of the business which was different in certain cases.

Farm credit corporation loans to rural farmers are made almost almost exclusively to farms in the Whitehorse region, within seventy miles of downtown Whitehorse.

than rural applicants. The Dana Nye stands out from the available information, as the only group who have placed the majority of their funds in rural communities. Almost two thirds of Dana Nye clients are from rural communities and the majority of funds have gone to rural applicants.

Native businesses also face special problems in obtaining financing for their businesses. Assets on land set aside are not eligible to be used as collateral on loans and provide natives with less potential equity. Ken Coates in his linkage study for the Yukon 2000 report provided evidence that natives face lower income levels, again providing a smaller base of potential equity.(Coates,1986,p6) Many natives also pursue non-market activities and use communal property which bankers find hard to evaluate for loan purposes. Many natives pursue traditional economic activities such as trapping which need portable assets like ski doos, boats, etc whcih banks are often reluctant to finance. And natives face the disadvantage of a negative image amongst some institutions and less history of entrepreneurial activity as a group.

Other groups such as women and youth face problems in accessing capital usually due to less available equity and the lack of a "track record". Again women and youth have on average lower income levels and less potential equity for investment. In fact, a recent Ontario study reported women had only three quarters of the equity available for investment compared to men and concluded that "the relatively higher investment by males compared to females may add power to critics of Canada's financial system who argue that it discriminates against women."(Ontario, 1985,p.104).

Finally, new businesses are seen as clearly disadvantaged when it comes to access to funding from financial institutions. Data supplied by the Federal Business Development Bank annual reports shows that FBDBs support of new business has fallen steadily over the past fifteen years. The FBDB, which was established to support higher risk businesses, has seen its support of new business steadily fall from 76.3% of all loan approvals in Canada in 1970 to 68.9% in 1980 to 61.0% in 1985. Similar trends are recorded for the provinces.

The CFIB study in 1985 also confirmed the preference by commercial banks for established accounts and even the Association of Venture Capital Corporations reported only a quarter of the investments by their members was in new businesses in the last decade.

The lack of opportunity for new entrepreneurs to receive access to funding is serious everywhere in Canada and no less serious for Yukon where small business is expected to provide the largest portion of the new jobs required annually to sustain the economic growth and development.

"There is a need for government to take an active role in

eliminating any impediments to full access to financial capital by certain groups or new entrepreneurs."

4.2 EQUITY AND LONG TERM DEBT CAPITAL

"A characteristic of small businesses is undercapitalization."(Ontario, 1985, pg.97)

Recently several major studies in Alberta and Ontario as well as the Yukon's access to capital study have indicated that small business has too little equity and too much debt. The studies also reported that smaller firms have more short term than longer term debt and are subject to greater volatility in their returns on investment. The consensus amongst the authors was that firms with lower debt to asset ratios tended to have greater returns on their investment, tended to be more stable and were better able to withstand economic downturns.(Gagnon et al, Mintz et al, Ontario, Alberta, IMC).

Table 1 which deals with Yukon business indicators clearly shows that Yukon firms had lower debt to asset ratios than the desirable 2.0 or greater. Debt to equity ratios are also higher than is prudent, with Yukon businesses having an average of \$2.82 in debt for every \$1 in equity. This compares to \$1.83 in debt for every \$1 in equity amongst businesses in the NWT and slightly higher than the Canadian average of \$2.61 in debt for every \$1 in equity.

Several government programs make available grant funding and loan programs exist within both levels of government as well as for native Yukoners. However, private equity funding is not readily available in the territory and FBDB officials report providing no equity investments in Yukon in recent years. FBDB also reported in their 1985 Annual Report that they extended \$11 million in equity investments versus \$526.7 million in standard loans. Bankers also report that few entrepreneurs in Yukon attempt to access private equity available elsewhere.

Moreover, there is concern about the lack of sufficient returns to investment by the business community to encourage growth and development of small business. A major 1985 Ontario study on small business reported that " there is an irony in the fact that while the smaller firms create the majority of new jobs, a commensurate reward for this social contribution is not reflected in their financial statements where almost 60% of these firms obtain a rate of return below "normal" rates of return on assets while only 23% of larger firms do so. "(Ontario,pg97).

The study maintains that "a contributing factor to the poor profit performance of the small business sector has been the rising level and cost of debt" (Ontario,1985,pg97). These results, of course, imply that efforts by government to raise equity levels will tend to improve the profitability and the stability of firms and encourage the influx of new business

entrepreneurs. Table 1 shows that returns on equity do not seem to be a problem for Yukon business people but the average profit per business does not provide a large incentive to pursue business opportunities versus alternative employment opportunities.

The degree of support for many businesses need not be large. Various small business studies all point to initial capitalization of startups often being under \$5000, average startup funding being under \$27,000 and equity being provided by a combination of personal funds, investments of "nonbankable owners time" (sweat equity) and the resources of friends and relatives (love money). The Access to Capital study reported a similar structure for Yukon business requirements where the majority of new startups require less than \$25,000.(IMC,pg.2.14)

Rural communities, natives, women and youth appear to have a smaller potential equity pool than is the case amongst the majority of Yukon businesses. These groups have lower income levels from which to draw equity, often face higher living costs, and do not have the base of relatives or friends from which to access capital. Many Yukoners, particularly natives, do not have access to accumulated wealth from previous generations and many Yukoners are separated from friends and relatives. And many natives are involved in traditional non-market activities which contribute to income but do not add to an equity base.

The Yukon Bureau of Statistics in 1983 reported that rural communities have about 80% of the income levels of Whitehorse residents and more than 60% of all rural taxpayers earn less than \$15,000 per year. (Yukon Bureau of Statistics, p) Ken Coates in his report showed that native native families in Yukon earned slightly under \$21,000 on average in combined income while non native family income was almost \$31,000. And Monical Townsend in her Yukon 2000 study showed that women earned about \$10,725 in 1981 versus \$19,594 by men, or 54.7% of males income.

Finally, Yukon has had very limited experience in using equity available through the pooling of funds by groups of individuals. Cooperatives, credit unions and other community based economic development organizations provide a means for groups of individuals to pool their limited equity and develop new business enterprises. While these types of groups are a major force in economic development in other regions of Canada, especially in rural communities, they remain almost non-existent in the Yukon.

"There is a requirement in the Yukon to enhance the equity base of business in order to increase their stability and long term profitability. As well, there is a special need to increase the equity base amongst prospective new native, women and youth entrepreneurs. "

"The equity base of communities could be enhanced through greater use of community enterprises, cooperatives and credit unions."

Long term versus short term debt can also create problems for new or expanding businesses. A recent Economic Council of Canada report concluded that smaller businesses tend to have a much greater ratio of short term debt to long term debt which tended to reduce stability and increase the risk of business failure.(Papillon et al,1984) Government programs were identified as contributing to this problem as they are usually providing short term capital.

Several of the government programs for Yukon shown in Table 12 are geared to short term rather long term funding. Information supplied by the Canadian Bankers Association also indicates that the majority of loans in Yukon are for "demand loans" where the banks can demand repayment at any time and very few loans are "term" loans with a specified repayment period. As well, a large portion of the loans are of a short term nature rather than longer term. This is in sharp contrast to the NWT where a large majority of the loans are provided on a term basis rather than a demand basis and much more loan portfolios are longer term than is the case in Yukon.

"The Yukon Government's financial resources strategy should attempt to encourage businesses to acquire more longer term versus short term debt where appropriate and should not devise programs to encourage firms to increase the amount of short term debt they hold."

4.3 CASHFLOW PROBLEMS DURING STARTUP

*"The second to fifth years of business life are the true test. Generally in the first year of operation, the business has not devoured its capital nor used up outside lines of credit"
(Dun and Bradstreet,1985,pg4)*

Data supplied by Dun and Bradstreet, a national business credit organization, indicates that 54.5% of all businesses in Canada fail in the first few years, with cash flow problems created during startup contributing heavily to that problem. New companies and companies expanding their operations usually incur cash flow problems in the initial few years of operation. These problems are often caused by the need to "establish" a reputation and develop markets over time.

Yukon businesses would seem to also suffer from these problems. While there is no firm data available, conversations during this research and the work on the Access to Capital study conducted in 1986 seem to indicate that business people in the territory face difficult cash flow problems in the early years as they develop markets, establish credit

reliability and learn business management fundamentals.

This problem is enhanced by the fact that many firms in Yukon operate on a seasonal basis. Most goods producing businesses like placer mining, construction, forestry, agriculture and trapping and some service producing industries like tourism operate seasonally. In fact, Brian Buchanan in his Yukon 2000 study reported that 2/3 of all non government employment was involved in seasonal business. (Buchanan, 1986,p.7) The seasonality of business means that Yukon entrepreneurs must obtain revenue in six months to sustain a business that incurs costs over twelve months.

Seasonality puts severe strains on the ability of firms to maintain inventories and to develop markets. Both the Yukon Forest Industry Association and the Yukon Agriculture and Livestock Association indicated at a workshop in import substitution on February 1,1987 that cash to prepare for seasonal activities was often required long before revenues were available.

Banks provide working capital loans to a maximum of 50% of the value of inventories and 60% of receivables. Inventory financing of primary products is often difficult or non existant. Government programming to date has not offered working capital financing and the lack of access to this type of funding has been considered a major constraint and several groups have urged government to institute programs to assist them in inventories and working capital.

In addition to these problems, high interest charges on capital, difficulty recruiting and training staff and problems in developing efficient business practices are all factors that contribute to cash flow problems in the first few years. The Ontario study reported that high and growing interest charges act as one of the greatest impediments to development of the small business sector and that staffing problems were reported by entrepreneurs to be one of the greatest challenges they faced in their early years. (Ontario, 1985,pg103)

"Efforts must be made to devise policies which reduce cash flow problems in the early years, particularly amongst new and seasonal businesses."

4.4 OPERATING DIFFICULTIES

Northern businesses have a production advantage in developing local markets due to the high transportation costs to deliver products to Yukon. On the other hand, the northern location of Yukon means restricted access to large southern markets. There are cost disadvantages relative to the economies of large scale available to southern competitors. The Yukon Bureau of Statistics reported that costs in Whitehorse were 21.6% higher than Edmonton in 1985 and 13.7% higher than Vancouver. Larger rural Yukon communities face costs that are up to 25%

higher than these southern centres and in some cases smaller Yukon communities face costs as much as 60% higher.

Labour costs in Yukon are higher than the rest of Canada and the long haul distances result in significantly higher transportation costs. Whitehorse has a broad diversity of products available but this variety means inventory costs are higher and turnover lower than southern centres.

Markets for Yukon products both within the territory and outside are not well developed with the exception of tourism. Declining economic activity in Alaska, NWT and BC, means our traditional regional markets are no longer as secure as they were. Even in major mining operations, traditional markets are changing and firms are required to develop new markets if they wish to remain competitive. As well, Yukon business people do not have immediate access to market data, world trends, export opportunities and private business opportunities. Great strides have been made on making data available in YUKon but a wide range of market data still remains unavailable.

Infrastructure can also be a significant deterrent to development particularly in rural areas. Infrastructure costs can be anywhere up to ten times more in rural Yukon communities than in Whitehorse. For example, a firm may be required to pay \$5,000 to \$10,000 to install a water and sewer connection in Whitehorse, but pay \$35,000 to \$40,000 for an equivalent system in Destruction Bay. The cost of industrial support services in Whitehorse is less because the burden rests on a much larger tax base and economies of scale are available to reduce unit costs. Construction costs are usually higher in rural communities and often entrepreneurs must build their own facilities rather than simply leasing space.

Finally, small businesses across Canada and undoubtedly in Yukon face problems of accessing information on the complete spectrum of business operations. Information is less available on business management, taxation, government programming, staffing, regulations, etc for entrepreneurs in small businesses. A major Ontario study and the Quebec Saucier report both indicated that small businesses, who need to be most attentive to available aids to business development appear to be the least able to obtain that information.

"Government efforts to increase access to financial resources must be coordinated with a broader business development strategy to deal with other equally important constraints to development, such as management skills, regulatory constraints, lack of access to information, operating difficulties and market development."

"Government efforts to direct more financial resources to improve infrastructure and reduce costs rather than direct financial assistance can make a major contribution to the financial stability of firms and the growth of Yukon's

economy."

4.5 LACK OF AVAILABLE ENTREPRENEURIAL SKILL AND TALENT

"Perhaps greater recognition of the limited availability of entrepreneurial talent-across Canada, Yukon and ethnic groups- is required."
(Coates, 1986,pg 25)

Yukon has a history of strong entrepreneurial spirit from the earliest days of the territory. From fur traders to dancehall owners, from mining promoters to grocery store magnates, the Territories citizens have responded to the opportunities and brought together all the necessary requirements to develop successful businesses. With more than 900 individual proprietorships or very small businesses, a rate of 45 small business entrepreneurs per 1000 eligible individuals (ie 15 years and older), there is no doubt that the entrepreneurial spirit is high in the territory. Table 1 which outlines business indicators for 1983 also show the strength of Yukon's business community in the face of recession. However, with less than 20,000 in the labour force from which to draw entrepreneurs locally, the base for potential new business operators is low in Yukon.

Natives in Yukon, according to work done by Ken Coates, had a fairly well developed entrepreneurial group from the start of gold mining until the end of World War II. During this period the harvesting economy was strong and the financial returns from the fur trade combined with subsistence hunting and occasional employment in the wage economy provided most natives with the cash or exchange value they required to purchase southern or manufactured goods.

However, in the period from World War II until the late 1970s, native people struggled economically as they attempted to deal with the painful economic and social transitions caused by the rise in the wage economy where natives had a subordinate part and the decline in the harvesting economy where natives had a dominant part. During this period there was much less entrepreneurial development and fewer natives involved in the mainstream of the economy.

In recent years, there has been a resurgent in efforts by government and natives to increase the numbers of business people in the Yukon but further development of the entrepreneurial skills and talents of natives is urgently required.

Associated with the potential problems of attracting entrepreneurs, are problems of encouraging and supporting those individuals who do decide to become business entrepreneurs. The Access to Capital report indicated that " a frequent comment by those interviewed was related to the concern that many small business owners and managers lack the

education and training required to efficiently operate a small business." (IMC, 1986,pg ES.1) Dun and Bradstreets analysis of business failures also reports that over 90% of all business failures are due to management inexperience or incompetence.

In Yukon many entrepreneurs learn their vocation on the job. As such they often have problems preparing business plans for presentation to banks and have only limited access to information and support should they encounter management or operating difficulties. The Access to Capital study commented "that financial information [in Yukon] is a problem- people come to the banks without a financial statement, poor management and they don't understand cash flows".(IMC 1986,2.11) Ken Coates in his Yukon 2000 report also noted that the lack of proper business skills was a major deterrant to the development of entrepreneurial talent amongst Yukons natives.

In addition to the problem of a small population base from which to draw entrepreneurs there are several social and other factors which inhibit the development of more Yukon entrepreneurs. The broad availability of high paying government jobs provides less incentive for prospective entrepreneurs to enter business. Government employs more than 30% of the available labour force in the Yukon. The Yukon Bureau of Statistics reports that the average income of employees in government in 1983 exceeded \$26,000 per annum while business proprietors received incomes of slightly less than \$13,000 per annum. The existance of this large income difference acts as a deterrant to highly skilled government officials with entrepreneurial talents when considering moving into the private sector. Moreover, conflict of interest guidelines may restrict them from investing in firms in Yukon or in opening part time businesses that can access government contracts.

A large pool of potential entrepreneurs exists within government and to encourage greater small business development government might be wise to develop strategies and programs that encourage government employees to switch from the more lucrative government jobs to the riskier role of entrepreneur. Simple actions such as allowing staff to qualify for the income deferrment provisions of the present Income Tax Act would be one way to assist individuals to accumulate income tax free that could go to investments or training. The tax deferrment provisions allow individuals to place up to 20% of their income each year into an employer run trust on a tax free basis. If a person leaves government to enter business after five years, the funds can be withdrawn and used to start a business or supplement income until the business is up and running.

"The financial resources strategy should reflect efforts to encourage government employees to become entrepreneurs."

Again, with respect to natives Ken Coates wrote in November, 1986 that "the expectation that Yukon Indians lacking as a group the standard requirements of education and technical skills, will generate a sizable group of successful entrepreneurs is unreasonable. Most Indians who seek greater integration into the wage economy (and these represent only a portion of all natives), wish to do so as employees not employers. The strong emphasis on small business development as opposed to employment in small businesses, may lead to continued disappointment." (Coates, 1986 pg25)

"Any strategy intended to develop financial resources must deal with the need to create and support entrepreneurs in the territory. The access to financial resources is only as good as the entrepreneurs available to support the use of these resources. Existing entrepreneurs can be nurtured through enhancing access to the financial system but long term development of entrepreneurs can only come from a basic commitment to education and training over the next decade."

"Policies need to be developed to encourage employees to become employers; but there is a need to ensure that complementary programs are available for those who need the training to succeed or who wish to pursue other avenues in search of long term employment. This means that the financial resources strategy can only be a small part of what needs to be a comprehensive approach to the issue of business and human capital development."

4.6 ADVERSE COMMUNITY IMPACT

Many rural Yukon communities lack the basic business community facilities and services to accommodate the local citizens. Professionals such as doctors, lawyers and accountants are unavailable; many service businesses from hardware to hairdressing are non existant and in some cases essential items such as grocery stores and restaurants are in short supply.

The financial system in Yukon has contributed to this situation by concentrating the financial services in Whitehorse. With the majority of business activity centred in Whitehorse and a lack of financial services locally, Yukoners have become accustomed to travelling to Whitehorse to cash their cheques, purchase their household requirements and return home. As a result there is an outflow of income from rural communities to Whitehorse and an attendant lack of market available to support new local business opportunities.

When the lack of financial resources combines with higher infrastructure costs, higher construction costs, the need to transport goods from Whitehorse to the community and fewer advisory or support services to business, the result is an underdeveloped rural community base.

In addition to the physical impediments, the rural communities lack the equity base amongst its citizens to support new business development. The lack of an equity pool means less ability to raise capital and fewer employment opportunities being developed.

In many rural regions of Canada, the growth of community based economic enterprises and cooperatives has been in response to the lack of an equity pool to support new development and insufficient resources amongst individual citizens to support development initiatives. These community based developments pool the expertise, commitment, and knowledge of the entire community in order to provide goods and services to the local community.

Community businesses, whether they come in the form of cooperatives, local enterprise trusts, community owned businesses or community development corporations operate as a traditional small business but their inception comes as a result of local resources being identified and used and local people being responsible for the development and operation of the business. While such enterprises are geared towards serving the interests of the community as a whole, it is misleading to describe them as "not for profit". No community enterprise can ignore profit, either as a source of motivation or as a resource for further development. The key factor is that the profits and services remain in the community and the income is distributed to the citizens or used for the communities benefit.

"There is a need to develop the business base of rural centres in Yukon, through enhanced financial services and the use of more community based development initiatives."

4.7 GOVERNMENT PROGRAMMING AS A CONSTRAINT TO ACCESSING CAPITAL

"There is, it seems, something wrong when the complexity and diversity of programs is such that professional assistance is required, not just for the vital areas of assessing potential markets and deciding on a viable business plan, but to approach the government for assistance."(Coates,1986,pg 23)

Ken Coates comment seems indicative of the thoughts of many Yukoners. During the Yukon 2000 process to date there has been a remarkable consensus of people about the need for government to reassess the methods of program delivery with a view to improving the process. They have called on governments, both federal and territorial, to improve efficiency, minimize paperwork, and simplify access to employers and potential employees to the programs. Many groups see government administration of programming itself as an impediment to accessing financial capital required for successful

development and have called for changes to be made in the programming to eliminate these problems.

The major concerns have come in four major areas, namely:

1. Growth in Programming
2. Complexity and Duplication
3. Efficiency in Delivery
4. Effectiveness of Programs

The discussion in this paper will provide a general assessment of each the concerns and possible solutions to the delivery of financial assistance programs. It is not intended to provide a full program evaluation in order to assess the efficiency and effectiveness of the programs. *A full evaluation of these programs on a regular basis however, should be standard government policy and one that is pursued rigorously.*

This discussion will focus on programs that provide direct financial assistance to businesses and not on a variety of programs, as outlined in Appendix B, that provide indirect financial assistance such as infrastructure support, energy conservation loans and grants, commercial relief on energy costs, training subsidies and so on.

4.7.1 Growth in Programming

There are 6 out of 11 Yukon government departments and agencies and 10 Federal Government Departments that provide over 100 various types of direct and indirect financial assistance to businesses in the territory. The assistance covers the complete spectrum of grants, loans, loan guarantees, tax incentives, wage subsidies, infrastructure assistance, business advice and training. In fact the number of programs has grown so large, the Yukon Government has prepared a two volume publication entitled "Business Programs Manual" which provides detailed information on all the programs available. Appendix B provides an listing of most of the various programs and includes the new programs passed in the 1987/88 capital budget of the Yukon Government.

Table 8 shows the expenditures from various government programs over the period 1980/81 to the present on direct financial assistance to business. Clearly there has been a dramatic increase in the amount of spending being carried out in Yukon in the past two years. Expenditures went from \$5.5 million in 1984/85 to \$17.1 million in 1986/87. In addition there has been an estimated \$9.0 to \$10.0 million made available in 1986/87 for indirect financial assistance to industry, at least triple the funding available prior to 1984/85. In large part this was a response to the past recession and a legitimate recognition of the value of using small business as the basis for economic growth in the territory.

Natives receive funding primarily through Special ARDA, the

Indian/Inuit Economic Development Fund and NEDP which provided just under \$4.0 million in 1986/87 to Yukon or about \$1100 per capita. This compares to funding for the entire Yukon of \$685 per capita.

No special direct financial assistance programs are available for women or youth. The Youth Venture Capital Program was cancelled in 1985/86 due to a lack of applicants for the program and a lack of appropriate legislation. The funds from this program were redirected into summer employment funding.

The tremendous growth in financial assistance programs, appears to have placed a severe strain on the administrators of many of the new programs and their ability to meet the demands of servicing the clientele. The speed of the program implementation may have created expectations amongst business people about program delivery that could not be met by the administrators.

The problem of developing efficient administrative systems seems particularly true in the Yukon Government where there has been the introduction of five new financial assistance programs in the past two years, the need to assume administrative responsibility for three major EDA subsidiary agreements and the announcement of a new EDA subsidiary agreement and three new financial assistance programs for implementation in April 1987.

The amalgamation of Yukon's financial assistance programs under the Business Development Office has been a positive move to streamline governments response to the business community but the speed at which the new programs have been announced has made it difficult for the bureaucracy to respond quickly enough with appropriate procedures and guidelines. As a result there have been delays in responding to applications and in processing claims as staff scramble to try to simultaneously meet the legitimate needs of business for service and the needs of the government for proper administrative procedures.

"Yukoners have requested these programs and government has responded as quickly as possible; but citizens should understand that it will take time for the administrative system to adjust to the major expansion in programming."

In the federal government, officials have also had to deal with the development of procedures for the new agreements. As well, there were start up problems with the Native Economic Development Program due to insufficient administrative support, which delayed funding on a number of projects. The lack of a regional presence by NEDP and some political interference in the decisionmaking have been other concerns expressed by various groups with NEDP administration.

Indirect financial assistance such as the LEAD program, the Roads to Resources Program, Fuel Tax Exemptions and so on

added to the increase of programming on the scene.

The 1987/88 capital budget for the Yukon outlines several programs which may have a positive and long term impact upon business development in Yukon. If these programs are implemented too quickly, it could create unrealistic expectations amongst the business community that cannot be met by the administrators. At the February 1 workshop on import substitution, the Yukon Government requested input on the design of their programming which is due for implementation on April 1, 1987 only 40 working days later. Since then the Yukon government has consulted with a broad range of interest groups and requested input on program design. The time frame appears very short for obtaining public input, preparing the necessary procedures and guidelines, passing the required legislation and conducting the necessary information campaigns to inform the public about the program, all before April 1 deadline for program initiation.

"To avoid raising expectations too high, governments may be wise to delay the implementation of any new business programs for a few months until the design is finalized, and administrative procedures and guidelines are in place."

The fast pace of the program announcements and the numbers of programs announced also makes it difficult for the prospective business person to absorb and comprehend the programming available to him and tends to create an aura of complexity and difficulty which requires time to overcome.

4.7.2 Complexity and Duplication

Looking at the process from the bottom up, instead of from the perspective of the administrative agencies, one is struck by the complexity of the existing measures. In the laudable desire to cover the legitimate needs of Yukoners, federal and Yukon officials have created a labyrinth of specific initiatives.

Whereas in 1978 there were only a few sectors singled out for special treatment, today government provides financial assistance through a variety of programs to almost every sector of the economy. In fact the only areas where financial assistance will not be available after April 1, 1987 is to entrepreneurs in new mine production, general service and retail establishments, financial institutions, real estate and various self employed professions.

The rapid and to some extent independent development of these programs has also created a bewildering array of criteria, forms of assistance and decisionmaking committees. Tables 10, 11 and 12 outline the variety of requirements and decisionmaking committees.

Many programs have a fairly complicated administrative process

which includes an application, followup requests for information and clarification, evaluation of the proposal by an officer, a decision by a committee and distribution of funds if approval is given. Terms and conditions to be met are also often added. If there are any problems in the process at any stage, there are resultant delays while the applicant provides the additional material, further evaluations are conducted or new meetings held. A great deal of onus is placed on the applicant to feed information into the system, for administrators to carryout proper procedures and for groups of people to make individual decisions about proposals. In these processes months can pass before an application is approved or denied.

Other systems, like the Small Business Loans Act require the applicant to do very little. Once the applicant has provided the information required in support of the loans, the Banks are responsible for completing a loan guarantee application and presenting it for approval. Moreover, as long as the criteria of the program are met the loan guarantee is automatically granted. This system is neat, clean and simple; using established financial institutions, placing the onus on the administrator and not the applicant and eliminating the need for a committee decision.

Several officials consulted did admit that the programming appears complex but this was maybe in part to the history of the programs, to the nature of Federal/territorial programming designed to assist businesses and to the needs of specific federal or Yukon departments who pursue various development objectives.

To illustrate the problem, Yukon and Ottawa, through the Economic Development Agreement and attendant subsidiary agreements, attempt to provide programming that addresses specific needs of disadvantaged sectors in our economy. The two levels of government have negotiated six of these joint decisionmaking agreements over the past three years, each with its own criteria, guidelines and decisionmaking committees. Moreover, the Yukon Government has attempted to fill gaps in this joint federal/ territorial programming by implementing additional new programming, complete with their own set of guidelines application forms and criteria. The result is a system that appears complex and demanding, where business development officers can help applicants combine funding from various programs, where applicants often must prepare more than one application form and where many applications are processed through more than one administrative process.

The rapid growth in the number of programs has also created a complex array of guidelines and criteria for various sectoral assistance programs.(see Tables 11 and 12) Some programs have specific requirements concerning the need for equity investment by applicants while others do not; some programs allow sweat equity as an eligible equity contribution while

others do not; some programs offer training, others do not; some programs encourage non-profit societies and community groups to apply, others do not; and some place emphasis on community lead initiatives while several do not.

To just read through the 252 pages of the Business Programs Manual which provides a short summary of each of the programs gives a graphic demonstration of the amount of information that must be absorbed, if a person wishes to be well informed about all the programs that are available in the Territory; not to mention the time and costs to apply for the program funding.

Each program requires an application to be completed and a variety of supporting data to be provided. Each program also differs slightly in its requirements for this data. Some federal and Yukon programs require a single basic application form to be completed and officials solicit supplementary information as required. Some programs require the client to fill in a preliminary application and if the project is found to be eligible for the program a second detailed application is completed. Some programs require a formal business plan to be submitted and other programs will allow you to provide the basic information from which the required data for decisions will be gleaned. Again, if you need to access more than one program or apply to more than one, the costs in time and effort for the applicant will rise substantially.

Program criteria and administrative procedures do vary with each program and grew out of the special perceived requirements of each sector. The various criteria seemed reasonable and consistent with the principal of assisting specific industries, but they begin to lose meaning when most sectors are being assisted as is the case in Yukon.

Data supplied by officials indicate that as much as one third of all applicants need more than one program in order to successfully implement a project. Therefore, a person applying for funding for a renewable resources project might need funding from the renewable resources subsidiary agreement for initial equity, loan assistance through the Yukon Loan Assistance program, marketing funds through the tourism subsidiary agreement and basic debt financing through the FBDB. In these instances, the differences between programs can cause significant delays and considerable time and effort for a sizable group of applicants in the business community.

It must be reemphasized that each of these application processes requires time and effort on the part of the proponent along with that of the bureaucrat. This time represents money to many applicants as it means forgoing income while the application is being developed and information is provided to the administrators of the program. It is understandable that the applicant be required to exert

effort to develop a sound business plan if the project is to succeed. The role of these government programs should be to encourage the person to develop this plan but not to add further impediments due to different administrative procedures, criteria and application forms.

The Business Development Office approach of attempting to get proponents to develop their business plans first instead of just applying for funds is excellent; but more standardized programming would make the processes easier to understand by the applicant and easier to administer for the officials. In late March, comments were received from Business Development Office staff that they are in fact moving very positively to create standardized application forms and to direct proponents through a more streamlined system. However, work must also be undertaken to coordinate and streamline the processes between Yukon government programming and that undertaken by the various federal departments and EDA sub agreements.

Standardizing criteria for things like equity, eligible capital costs, eligible labour costs, maximum percentages of assistance, training, etc would make it easier for the applicant to understand the process and for the bureaucrat to administer the process. As well, if a single basic application form could be produced for most programs with addendums as required to meet specific conditions of each program, the applicant would be more able to respond to the programming requirements and less likely to need expert government or private sector help in processing the application.

"There is a need to continue the process standardize the criteria, guidelines and application forms to the extent possible."

"The government should give consideration to seconding personnel from other provincial departments of small business or the federal DRIE office in order to assist in standardizing program guidelines, administrative procedures, and information systems during this transition period. Since Yukon is the last jurisdiction in Canada to become involved in business programs it can likely benefit from the use of expertise from other governments."

There are also at least four different kinds of decision making processes dealing with the applications that come forward. Table 10 outlines the type of decisionmaking committee used for each program. The decisionmaking can be done by an individual bureaucrat, a corporate official, a private sector committee or a bureaucrat committee. Special ARDA actually uses both bureaucrats and private natives.

Each committee is provided with specific guidelines on acceptance of applications and the conditions to be placed upon successful applicants. The guidelines differ between

programs as do the compliance conditions. Those processes that require a decision by a single bureaucrat or company official are usually the quickest while the bureaucrat controlled management committee is usually the slowest. The assistance granted to the native crafts cooperative at Expo '86 shows how quickly a single decisionmaker can impact upon an application and many business people interviewed liked the Trade Show Assistance Program because of the simplicity of the application process and the swiftness of the decisions.

The Committees controlled by bureaucrats are usually slowest for several reasons. Often it is difficult for the officials to meet due to other work commitments. Often there are delays due to insufficient information provided by the applicant or other difficulties in completing the applications. Often, the administrators have difficulty completing the evaluations in time for meetings and delays ensue. And often there are compliance conditions added to the approvals which must be negotiated with the applicant before final approval is granted. All of these problems can lead to significant delays in responding to requests for assistance. In a seasonal economy such as the Yukon, even short delays can result in the loss of part or an entire business year.

The problem is particularly interesting in the EDA process where each subsidiary agreement is controlled by a Management Committee. With 6 agreements that means 6 committees and since each committee has a minimum of 4 members that means 24 different potential decisionmakers. Of the six agreements, four deal with financial assistance to businesses, meaning that there are as many as 16 different people can be making decisions on project. As well, some groups who are responsible for financial assistance programs themselves are not involved in any of these decisionmaking groups.

As we said earlier, each committee pursues different objectives using different criteria and requiring different compliance requirements. To make arrangements for meetings is difficult, to ensure that full information is received is time consuming and often the decisions are simply rubberstamped. The Special ARDA program also appears cumbersome with the full committee consisting of a dozen different individuals plus support staff.

Several groups interviewed felt that the expertise of the business community was not utilized as effectively as it might. Most people felt that the Yukon Loan Assistance Program and the Dana Nye Committees were more effective than other types of committees as business people were responsible for approving projects. The business people, both native and non-native, reviewed projects from a solid business basis and supported those which were good risk prospects. Bureaucrats on the other hand, often had no business background and were not able make the critical business evaluations that were required and tended to review projects from a social or

political perspectives.

These groups felt that government should place more emphasis on using the private sector who are profit oriented and business minded more often in programming than counting on bureaucrats to make the evaluations.

A number of groups, most notably the Dana Nye, also expressed concern that programs demand so much of applicants that they are often driven to seek professional advice in order to complete the application process. This undermines the concept of having the private sector applicant take the initiative in developing expertise and could cause future operating problems later on. These groups called for a process that reduced the complexity of the process and placed more onus on the applicant to do the work themselves.

Again the Business Development Office is attempting to place more onus on the applicant to produce a good business plan themselves; but several officials did indicate that streamlining the administrative processes would be beneficial. Indian and Inuit Affairs have staff available to concentrate on business advisory support services so that applicants are helped step by step through the process. DRIE officials are more inclined to consider the process as a test of an applicants mettle. If the person makes it through the process, its a sign of commitment and ability.

The Yukon Government has responded to the complexity by placing more emphasis amongst their business officers on giving advice to potential business people on how to access the system, how to apply for assistance, how to fill in the forms and to whom to go for a status report on their application. This role gives the business advisors less time to assist business people in preparing a business plan, meeting regulatory requirements and assisting them with on going operating problems they may have. Efforts to streamline and simplify the programming would reduce the role of administrators in providing information on the programs and free up more time to provide actual business advice and assistance.

"Clearly, efforts must be made to reduce the number of decisionmaking committees, to reduce the number and complexity of application forms, and to attempt to standardize the criteria, definitions and guidelines for the various programs."

"There is a certain amount of overlap between management committees, there is a need to see if these overlaps can be eliminated or at least reduced."

This does not mean that it is necessary to amalgamate every program. For political, logistical and economic reasons there is unlikely to be complete amalgamation of all programs.

However, there should be efforts made to reduce the number of committees wherever possible and to bring more uniformity in the approaches to decisionmaking.

The Yukon government appears to be moving to have all of their directly delivered programs be screened through the private sector advisory board to the Yukon Loan Assistance Program. As well, there appears to be a possibility to create a single Management Committee from the Economic Development Subsidiary Agreements to deal with all the financial assistance programs. The single management committee with the standard federal/territorial-CYI membership could deal with applications from all the agreements, making decisions as required on projects. This would eliminate the need for an applicant to apply to several programs, allow the committee to meet more often, free up some staff for other duties and give an incentive to simplify the various guidelines and criteria.

The development of a single management committee under EDA for business programs also creates a possibility to establish a single more broadly based advisory committee of business people in order to provide input into the applications, rather than allowing one or two non voting members from special interest groups to participate on the Management Committee of each subsidiary agreement. This approach would reduce the possible problems of conflict of interest for a special interest group, allow the business community real input into the decisionmaking process, and provide a more business oriented approach to analysing projects. As an alternative to this approach, the government could ask the chairman of the Yukon Loan Assistance Program, the president of the Yukon Chamber of Commerce and the president of Dana Nye to represent business on the single management committee in order to bring in the business expertise.

Duplication of effort along with complexity was also raised as a problem amongst business development programs in Yukon. Program managers for every government program in Yukon were contacted and the purpose, criteria and coverage quickly reviewed. *The general indications from this research was that the number of programs may be large and the breadth of coverage wide; but there is little evidence of duplication of program coverage.* Programs have been designed from time to time in response to the needs of the clientele and legitimate gaps in programming. The various officials in each department appear to keep in relatively close contact and appear to share the total client base depending upon the type of project, and how it meets the criteria established by the program.

The apparent duplication of effort is clearly shown in Table 10 and largely lies with the repetition of programming between sectoral EDA subsidiary agreements combined with special initiatives undertaken by the Yukon Government. As each EDA subsidiary agreement has been signed, it has

included provisions for a feasibility study component, a grant component and a marketing component. As well, the Yukon government has designed several programs to fill the gaps in the EDA programming framework, including its own feasibility study program, "Opportunity Identification", a Renewable Resources Community Development Program that has both a feasibility study and a grant component, the Community Economic Development Program which provides extra funds for economic planning in communities and the science and technology research program that provides assistance for undertaking scientific research.

There is some direct duplication between the loans programs with the FBDB, Yukon Loan Assistance Program and the DIAND Indian Eskimo Loan Fund all providing financial assistance in the form of short term financing.

The amalgamation of the decisionmaking and administration of the various EDA subsidiary agreements would overcome a great deal of the perceived duplication between the various programs and allow for a more simplified approach to the processing of applications. As well, the Yukon government's new programming could be modified in order to be delivered through the existing EDA system rather than establishing a new framework. Every new program involves extra costs, requires additional administrative support and extra paperwork and requires further time delays to the customer.

"If new funding is required to meet gaps, efforts should be made to see if the funds can be disbursed through existing structures rather than creating new ones."

All projects, whether large or small must go through the same application and evaluation procedures. In looking at the Yukon Loan Assistance Program, the Renewable Resources and the Tourism projects lists in 1985/86, thirty-five (35) of the fifty-three (53) applications had funding approved for less than \$25,000. These smaller projects require the same amount of effort by applicants, are required to be processed through the same administrative system and are subject to the same scrutiny as much larger projects. While every application should be thoroughly reviewed, one is not certain that the personhours expended by the applicant in going through the entire process and by government in evaluating, presenting, and approving the proposals is justified by the amounts of the funds provided to the clients.

Many federal and provincial programs have responded to this problem in recent years by delegating authority for the approval of smaller projects to program administrators or to the chairpersons of the decisionmaking committees, in order to reduce the turnaround time and make the programming more responsive to the needs of the business community. Alternatively, governments have instituted other programs such as loan guarantees and interest rebates using private sector

TABLE 13
PERSON YEARS AND DIRECT PROGRAM COSTS FOR 1986/87
IN THE YUKON

PROGRAM	PERSON YEARS	PROGRAM COSTS (\$,000)
A. FEDERAL		
1. DRIE	5.5	408.0
2. NEDP	0.0	5.0
3. DIAND	4.0	228.0
4. FBDB	3.0	185.0
5. AG. CDA	0.0	5.0
B. YUKON		
1. BUS. DEV. OFFICE	14.0	651.0
2. ENERGY+MINES	1.5	100.0
C. PRIVATE		
1. DANA NYE	2.0	130.0
2. CYI	2.0	90.0
TOTAL	31.5	1,802.0

SOURCE: ESTIMATES PROVIDED BY VARIOUS OFFICIALS IN YUKON

NOTE: 1. Time spent by federal, territorial and native officials on the program management committees in addition to above staff is not included in this table; nor is additional administrative support staff. (For example, the DRIE office estimates an additional 2.0 person years of administrative staff is made available to them from Saskatoon.)

administrative systems for these smaller projects.

"There is a need for increased flexibility in dealing with smaller projects in order to reduce the paperwork and improve the delivery of the product to the client."

After a preliminary review of the variety of subsidiary agreements and other financial assistance programs as outlined in Table 10, it appears clear that efforts have been made over time to target financial assistance to almost every sector of Yukons economy. The native community has received additional attention with the institution of the Native Economic Development Program and the recent increases in the Special ARDA program funding will add to the financial capital base. The new financial assistance programs to provide working capital and inventory financing and bid bond assistance appear to fill the most of the gaps between sectors.

Table 13 outlines the distribution of loans in Yukon between the various financial institutions. The Table shows that most areas are receiving adequate coverage from financial institutions, except for the renewable resource sectors and transportation which are underrepresented. Some of the problems of underrepresentation are explained by the fact these sectors make a smaller contribution to the territorial product than the other sectors and higher risk operators; but it may also indicate that government may need to take special measures to ensure that these sectors get extra consideration for funding from the existing programs.

As indicated earlier the approach of government to date has been to promote a sectoral approach to development. The CYI in their statement to the Yukon Government on Yukon 2000 strongly put forward a case for taking a regional rather than sectoral approach to development and for dealing with the specific problems of rural Yukoners, natives and other groups who need assistance. This approach seems to be one that is gaining significant support across the country. Many provinces and agencies are providing research studies that indicate that directing funding at specific sectors to the exclusion of other sectors and regional concerns causes serious distortions in the economy and does not attack fundamental economic development. Several studies recently conducted in Canada on business programming have concluded, "financing programs that work best were those which did not distort incentives by targeting certain industries or sectors."(Newfoundland,1986;Warda,1986;Harrison,1982; Grady,1986;Braithwaite,1982;Martin,1982)

It seems prudent to look at all the federal and territorial governments to develop a means to provide similar financial assistance across all sectors of Yukons economy and to look for additional financial incentives to those groups, organizations or regions that require them. Flexibility may dictate that there should be different levels of assistance

TABLE 14
 DISTRIBUTION OF LOANS TO VARIOUS SECTORS
 OF YUKON'S ECONOMY

SECTOR	COMMERCIAL BANKS	FBDP	LOAN ASSISTANCE PROGRAM	DANA NYE
	PERCENTAGES (%) 1985			
AGRICULTURE	0.4	3.0	0.0	10.0
FISHING AND TRAPPING	0.1	*	0.0	13.5
FORESTRY	0.1	*	0.0	
ENERGY AND MINING	19.9	*	17.8	0.0
MANUFACTURING	11.2	23.0	1.4	13.5
CONSTRUCTION	6.9	19.0	0.0	33.2
TRANSPORTATION	3.4	3.0	1.5	0.0
WHOLESALE AND RETAIL TRADE	21.5	18.0	24.3	15.6
SERVICE	30.1	28.0	55.1	14.2
OTHER	6.4	6.0	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0

SOURCES: CANADIAN BANKERS ASSOCIATION, FEDERAL BUSINESS DEVELOPMENT
 BANK ANNUAL REPORT, DANA NYE ANNUAL REPORT AND
 THE YUKON GOVERNMENT

NOTE: *THE FEDERAL BUSINESS DEVELOPMENT BANK DATA DID NOT PROVIDE
 SEPARATE INFORMATION ON THESE SECTORS. THESE TOTALS ARE PART OF OTHER

between different sector depending upon their level of disadvantage (eg. 50% maximum funding for manufacturing versus 90% maximum funding for renewable resources) but program delivery would be enhanced if efforts were made to try to standardize the criteria on programming between sectors and provide more standardized application forms and project resumes.

"This financial resources strategy would argue that the government's efforts might be more effectively directed to negotiating changes to the criteria of existing programs to make them more flexible than simply designing and implementing new programs to meet every gap."

Once criteria and administrative procedures are standardized then financial assistance can be adjusted by providing differing levels of assistance depending upon the individual project and possibly upon the region or special group applying for the funding. Furthermore, the Yukon government could give consideration to converting existing funds from some of the new YTG development programs into a special "Economic Development Fund" which could be accessed by the EDA and Special ARDA decisionmaking committees in order to supplement funding for projects that may need additional help. In this way the existing structures are used to deliver the programming while additional funding can be provided to fill gaps in the programming. This Fund could use the money from the Community Economic Development Program and the Renewable Resources Commercial Development Program to provide the extra assistance.

4.6.3 Efficiency of Program Delivery

Several individuals have expressed concern about the efficient delivery of financial assistance programs, citing time delays in responding to applications, costly administrative structures to handle applications and heavy entrepreneurial expense in terms of time and effort to access the programming.

Efficiency of operations looks at the delivery of the programming at the least cost, in the least time and with the least amount of paperburden. After looking at the programs in operation in Yukon relative to those elsewhere, on the basis of costs and response time it appears that the Yukon and federal officials in Yukon can deliver programming as efficiently or more efficiently than anywhere in the country.

Administration costs in the Yukon usually represent 8-12% of the total program allocation which is consistent with the costs in most jurisdictions. The cost per job for the programming ranges from \$6,900 per job in the tourism subsidiary agreement to slightly less than \$13,900 per job for the renewable resources subsidiary agreement, with programs like Special ARDA being in the middle at around \$8,500 per job. These costs per job are well within the

\$30,000 per job set by DRIE as the maximum amount of subsidization they could support in disadvantaged regions.

Response time to applications is always a concern but the creation of the Business Development Office has been a positive move to streamline government response to the business community by consolidating programming and reducing processing delays. As well, the installation of business development officers in Watson Lake and Dawson City and the move to put a development officer in Ross River are positive moves to improving government's response to the business community. Other communities in Yukon would also benefit from these services.

As indicated earlier, the process itself in many programs is not designed for a quick response and until the processes are changed that will not be remedied. Within the established systems, however, the delays in response time appear to be largely due to delays by officials in responding to the growth in programming and in overcoming early startup problems in the administrative systems that were established.

In some cases the private sector has contributed to their own problems. On several occasions applicants have been warned of the planning time lines required for getting their applications through but have waited until the last minute to submit their applications. Then they are in a position of needing to get underway immediately but having to wait for the system to respond. Business people too need to be educated about the value of advance planning in preparing for the establishment of a business.

However, it was mentioned above and reiterated here, *governments have tended to concentrate on program design in the past two years rather than program implementation*, with the result of increased expectations by the client and declining capacity of the bureaucracy to deliver. With fewer new programs being announced in the future and the administrative systems becoming more defined and understood, over time the processing should be accelerated.

In considering efficiency there is one final point in about the programming and related to our strategy principles, namely simplicity of design. Most governments in Canada have moved in recent years to simplify the burden on applicants by shifting program initiatives to established institutions and to private sector groups. The Venture Capital programs, the LEAD Corporations, the Small Business Loans Act, the Quebec Interest Rebate Program and the Saskatchewan Fixed Interest Rate Program are all examples of this move to involve the private sector more directly and to reduce administration. The programs mentioned require the applicant to use established institutions and then provides a periodic grant or rebate once certain conditions are met. The programs are simple, efficient and reduce demands on the both the administrator and the

applicant.

For illustrative purposes let us consider the Saskatchewan Fixed Interest Rate Program announced in the late 70s. Under this program, the Saskatchewan government lends money to existing financial institutions at a fixed rate on the condition that they reinvest this money in loans to specific regions, sectors and types of organizations. Under this program the existing banks evaluate proposals but provide funds to clients under less stringent collateral and other conditions than would be the case for the banks funds. In Yukon, the government could extend loans to the FBDB or to the bank where it does business or to all banks on the condition that these funds are directed to rural communities, women, natives and so on in the form of loans at fixed rates. The process is simple effective and uses existing processes rather than increasing the bureaucracy.

In Yukon, the Venture Capital Program set to commence in April, 1987 is the first Yukon government program to take this simplified approach. All other new programs announced will require the full treatment of application, review, evaluation, decision making and followup for compliance and additional cost by both the applicant and the administrator. The creation of a loan guarantee program under the Business Development Legislation that is delivered through the loan board rather than using the existing Small Business Loans Act format and the established banking community is the biggest example of adding complexity rather than simplicity to government programming. The Small Business Loans Act has a long established mechanism for delivering loan guarantees through the banking system and to establish a second process for evaluating loans would add time, expense and complexity to the process.

Working capital and inventory loans would also be easily delivered using a loan guarantee approach similar to that of the Small Business Loans Act where the banks rather than government takes on the lions share of the work of processing the applications, providing the funds and passes the administrative costs on to the applicant. Government is simply provides a guarantee that any funds lost during a business failure will be reimbursed by the banks.

The DANA NYE also represent an approach to have private sector corporations take on a greater role in assisting in development. DANA NYE appears to be filling a requirement for the provision of equity financing and small loans to Yukons business community and is controlled in their endeavors by the profit motive. If the Corporation fails to maintain at least a breakeven position, it will not be able to successfully help other operations. The firm is encouraged to reduce costs and to design efficient operating procedures. They are also encouraged to look after their client base as they require this base in order to maintain their operations. The

encouragement by government also may need only be a responsive Venture Capital program that will allow such firms to be eligible for the investment incentives.

The discussion of efficiency has also revolved around the cost to government of maintaining a loans portfolio over time. The federal and Yukon governments have largely used grant programs as their investment tool to assist small business. This tool does not require the establishment of long term administrative procedures or the development of an ongoing monitoring and recovery program. Loan programs, however, are a different story.

A broad range of studies were surveyed during the course of researching this report and all indicated that governments run loan programs less efficiently than financial institutions, either public or private. Government run programs generally required higher administrative costs, used less rigorous evaluation procedures and did less monitoring and control of accounts. (Alberta,1985; Aulde,1980;Gagnon,1984; Harrision, 1982; Hatch,1985; May,1979; Mintz,1984 et al)

The reasons given for this less effective approach came down essentially to "incentive". Government programs and personnel have less incentive to run effective loans programs. These reports indicate that government officials tend to be generalists not specialists when loans programming often requires specialized knowledge. Government officials usually have time constraints that preclude thorough evaluation and are hampered by government financial procedures that are geared to handing out the funds but not to recovering them. Political considerations tend to have more influence on whether or not to fund projects or foreclose on doubtful accounts than is the case in loans institutions distinct from government.

The situation in Yukon would lead one to believe that we are no different than elsewhere. In fact, the Yukon government commissioned studies in 1978 on the Small Business Loans Fund. The reports concluded that the fund suffered from a lack of proper project evaluation and inadequate monitoring and followup procedures. As a result a large portion of the fund, at one time 20% of available credit, was declared as doubtful and not likely to be returned to the government.

The present Yukon Loan Assistance Program appears to be operating more efficiently than the previous program, with the Business Development Office reporting a default rate of only 3%. However, the programming costs are beginning to rise as new staff are being hired to monitor loans and conduct followups. As well, the economy is in the midst of an upsurge and we have not assessed the potential long term problems related to defaults, foreclosures and so on that can occur in a small region like Yukon where every vote can determine the outcome of an election.

Finally, efficiency is being compromised in Yukon by the nature of federal/ territorial relations. The rigid financial management systems imposed by the federal government has hampered program delivery of several programs. Due to fiscal restraint in Canada, the federal government is not allowing funds approved but not spent in one year to be carried over into the next year. This has caused serious problems for administrators and clients in getting several projects underway. It also creates uncertainty and concern over the ability of the system to respond to the needs of the region.

The jointly managed programs have tended to be less flexible in dealing with changing circumstances than would be the case if delivered independantly. In an effort to protect each level of government from program abuses, the agreements have laid out specific guidelines for program delivery and in certain cases the economic conditions have changed while the guidelines have not. In order to revise the guidelines requires cabinet approval at both levels of government and since the federal system is a very time consuming process, changes are effectively impossible. The result has been for the Yukon government to attempt to deliver more programming directly. However, there is some room for flexibility within the programming that does not appear as yet to have been explored and efforts at the administrative level to modify the rules could assist in improving the delivery of funds.

"Thought should be given to reviewing programs to see if some could be more effeciently handled through existing institutions or private sector firms such as Dana Nye."

Due to the concerns over the efficiency of government loan programs, governments in many larger provinces have moved their loans portfolios to crown corporations and outside of the direct stream of government activity. Quebec, B.C., and Alberta are major examples of government moving to separate its loan programs from direct government control.

"The Yukon Government may too wish to move its loan portfolio to a public corporation or to contract the work to an established agency such as the Federal Business Development Bank."

Moving the work to an agency such as FBDB allows the government to take an arms length view to the loan portfolio but to monitor and influence the decionmaking of the bank through its contracting arrangements. For example, the government could request that FBDB set up suboffices in certain areas, increase its staff complement to provide better service, allocate a certain amount of the governments loan portfolio to rural areas, to women, natives and youth and have applications screened by the same private sector advisory group now operating under the Yukon loan program.

The largest comprehensive study of the Federal Business Development Bank was conducted in 1983 by the University of Western Ontario who reported that "the FBDB is an established vehicle for financing marginal enterprises. The FBDB has acquired a portfolio of high risk loans, has developed an internal organization geared to its lending role and is viewed by chartered banks as a supplemental lender."(Hatch,1983,pg.372)

The contracting of the work allows the loans to be assessed by a major financial institution with a diversity of expertise rather than the handful of staff within its own organization and a mandate to assist small business. It divests government of the costly task of monitoring and collecting accounts, leaving the government to deal with other critical constraints to development like business advice and assistance. It reduces the application time by the client and the need for completing extra applications.

Another alternative would be to follow the Saskatchewan governments approach of providing loan funds to the established banking community at fixed rates on the condition that the banks reinvest those funds in new business ventures at established fixed rates. Again, the private sector is encouraged but the established financial institutions are the responsible implementing mechanism.

Government has also used the established banks to implement loan guarantees on capital and working capital loans through standard guarantees to any loans handed out subject to specific criteria. These too are simple yet effective techniques for government to implement a policy to assist business.

4.7.4 Program Effectiveness

The Yukon and federal governments in recent years have instituted a broad range of financial assistance programs intended to support and assist the business community. However, it strikes one at looking at the programs that government seems to have picked up the entire package of loans, loan guarantees, grants, and other incentives available. This approach has the advantage of being flexible in having a tool for every occasion, but it has the disadvantage, especially in a small region, of attempting to be all things to all people. Attendant to this are the already expressed concerns that the complexity is increased, the administration costs rise and the client may not feel like their better served. There is also the question as to whether the problems of business are being effectively addressed by the government programs.

In summarizing the previous comments in this report regarding business constraints, the evidence available indicates that businesses in Yukon, like most areas of Canada, have the

following characteristics:

1. Too much debt and not enough equity
2. Too much short term rather than long term debt
3. Problems of rural and native access to financial capital
4. No programs specifically to deal with special problems of women and youth
5. Cash flow problems in the first few years
6. Business management problems
7. Problems of access to government programs

In addition, this financial resources strategy paper outlined a principle in Section 3 that the programming should provide some incentives for firms which bring permanent employment, stability and growth to regions. If these firms meet or surpass the compliance requirements, they should get some form of reward for meeting societies goals along with the business goals. Those who fail to meet these goals should not be encouraged by the process. Section 3 also contained a principle that the programs devised to assist business should support community as well as individual enterprise. And Section 3 set out the strategy principle that government should try to design programs to be easy to implement and use existing institutions wherever possible.

When you match these criteria up against the programming in Yukon, you notice that some programs inject equity but many programs are encouraging greater debt financing when debt financing is less desirable. Some government loan programs are encouraging businesses to take out short term rather than long term debt, which is counter to solving the problems. Few incentives are in place to reduce cash flow problems after the initial equity injections. A number of programs do not allow community groups and non profit societies to be eligible for assistance. And there is no recognition in many the programs of the need for special incentives to encourage rural development in Yukon and no special incentives to encourage women, youth and employees to become entrepreneurs. As well, there are no real incentives for rewarding those firms that meet the major development goals of the Yukon and no explicit means of coopting the private sector institutions into helping private firms. Finally, there is only a limited attempt by government to provide comprehensive business advice and assistance after a business is underway.

There is no desire here to criticize the people who designed or implemented these programs. Each program was implemented in response to a legitimate need based upon the best available information and with the best of intentions in mind. Moreover, the programs were implemented over time and it is only now that all the various programs are in place that one can take a look at where there may be room for modification and redirection.

"It is clear that governments in Yukon should take a close look at their existing programming to ensure that it is

meeting the needs of the business community and to make changes where necessary to ensure that those who need the assistance receive it and those who do not need the assistance do not receive it."

It is particularly urgent that government look at its programming in light of the fact that government in 1986 put into the business community more than \$30 million in direct and indirect financial assistance in the Yukon, a sum that is more than 15 times greater than the entire taxes that will be paid by the businesses in the territory during that year.

There also appears to be some room for the Yukon Government to meet its objectives through program modification and greater specialization. The next section will discuss the variety of measures that governments can use to address the problems so they will not be discussed here. Specialization by government, especially in the Yukon Government, in the types of services provided and the program instruments used, however, should be considered

Many governments arrange their financial assistance programs so that they specialize in the provision of certain types of incentives, be it loans or loan guarantees, various forms of grant provisions or various forms of non direct government involvement. DRIE for example has moved to specialize in the evaluation and funding of larger business enterprises, leaving the provincial governments to assist smaller clients. BC uses forgivable loans and loan guarantees while Ontario uses tax incentives and specialized grants extensively.

In the Yukon, there has been a move in recent years for government to assume responsibility for providing every type of assistance. This requires the establishment of a series of administrative systems and the hiring of staff capable of dealing with a broad spectrum of activities. By failing to specialize in the types of programming it delivers, the government may risk the success of one program at the hands of a competitor, possibly located within the same department.

For example, the Yukon government provides financial assistance through grants which increase equity funding and low interest loans that subsidize operating costs. On the other hand, research indicates that these Low interest loan and grant programs act as deterrants to developing private equity markets, such as those being stimulated through Dana Nye and the new Venture Capital program. Quebec's major Commission of Enquiry into capitalization of business found that there was a bias in governmental aid from these types of programs in which "indebtedness, has been directly encouraged by guarantee and loan programs; furthermore, to finance a project, it is easier for an entrepreneur to apply for grants that were available than to search for risk(venture) capital"(Saucier, 1984,pg112) In this way one program may act to adversely affect the success of another, something that

specialization should help to alleviate.

The previous section indicated that the existing financial institutions appear to be providing reasonable access to capital for businesses in Yukon and possibly better access than that available in other regions. Hence, there seems to be less of a pressing need to develop new government run programming such as loan funds that directly compete with the banking community. Rural communities, natives and other groups it is true appear to need additional assistance but they appear to require better access to equity than loan financing. This equity assistance it appears from the literature can be better funded through forgivable loans, contributions, venture capital assistance and so on than through loan portfolios.

People interviewed in the course of this study indicated that the fact that the Yukon government did not require collateral on its loans was the real advantage of the program, not the interest rates. It appears that the Yukon government could provide the collateral or equity assistance in other simpler means such as loan guarantees, forgivable loans etc than instituting a formal loans process.

Effectiveness can also be compromised by trying to implement every program option available. The proper evaluation and administration of loans portfolios, for example, often require specialized backgrounds and experience. Alberta Treasury Branch officials interviewed during the research for this report stressed the need for strong expertise amongst loans personnel if a business loans program is to succeed. They also stressed the need for any institution to specialize in the types of projects it has in its loans portfolios. Each application they commented must be evaluated by knowledgeable professional loans officers with background in the field in order to ensure that the firm will have every chance to succeed and the government will recover its funds.

Yukon has only been in the loans business for the last two years, the previous endeavor was less than a great success and they cannot afford to hire the broad range of expertise required to evaluate the complete spectrum of loans that is likely to be forthcoming in Yukon. On the other hand, they will be required to accept, evaluate and monitor these applications from every sector, region and group. There is no doubt that the presence of a private sector decisionmaking board is a benefit to the loans program but other alternatives may prove as effective but require much less administrative costs both for government and the applicant.

On the other hand, the Yukon Government has had almost a decade of experience in the provision of grant programs, particularly for smaller projects and has a capable cadre of staff able to evaluate proposals to meet the grant criteria. These programs assist business to acquire badly needed equity

and reduce debt, thereby assisting in stabilizing business.

Both levels of government also have available strong financial clout in the form of various types of investments. The Yukon Government in particular may have millions of dollars in cash reserves which are presently invested in a broad range of different financial instruments like bonds, securities and so on. To date the Yukon government has used a small amount of this clout to persuade the Canadian Imperial Bank of Commerce to extend their banking services. However, both levels of governments should look at means to use these cash reserves to more directly influence the existing financial institutions to respond to the needs of Yukon businesses and people. For example, the Yukon government could invest some of its funds in existing banks on the condition that they reinvest these funds in Yukon business through the provision of fixed interest loans.

The implementation of the Yukon Venture Capital program will also mark the first time that the Yukon government has pursued the private sector as a means of assisting in overcoming the business financing problems. Dana Nye is another private sector tool that as yet remains underutilized as a means for stimulating equity and meeting short term financing problems.

"The Yukon Government would likely be better off to specialize in the delivery of business programs and attempt to devise alternative methods of delivering the loans and loan guarantee portfolios. The private sector must also continue to be encouraged to participate directly in assisting business development"

In addition, the Yukon Governments preoccupation with the development of new financial assistance programs has meant that business advisory services and market development are being neglected. Business advisory services is a cornerstone of an effective business community and efforts to assist in business management and training, business advise and information to business are not being serviced effectively. The Access to Capital Study concluded and several people interviewed reported that a lack of management skills and experience was adversely affecting businesses in Yukon and called for efforts to support the entrepreneurs. The Access to Capital study also confirmed the need to extend business financial advice to complement financial assistance programs.

The Yukon Business Development Office had 14 person years in 1986/87 involved in business programming, but no one is set aside to provide followup advise and assistance. In 1987/88 there will be one person assigned to this task, leaving 16 others involved in program administration. Other federal departments in Yukon, including DRIE, DIAND, CEIC, and FBDB have no staff providing ongoing full time followup advise and assistance non natives. DIAND, through, Indian and Inuit Affairs, has a single person dedicated to providing followup

services to native clients funded under their Economic Development Programming.

Preplanning has also been compromised somewhat as staff scramble to provide business advice and assistance while simultaneously attempting to administer a broad range of business programs. BDO officials report that about 50% of their business officers time is involved in face to face discussions with clients which includes providing information, counselling and business proposal development. Other business groups have less time available. However, many business people are not able to obtain the business advice they need from occasional discussions with staff who must deal with business advice while working on program administration. Today it is the business advice that appears to be suffering.

Business advice and assistance before, during and after a business gets started is as crucial as the funds that are provided. A 1985 major Ontario small business study reported that of the 1500 business people surveyed, the largest component saw business advice and assistance as one of the most crucial areas where government could help business to succeed. The other two were reduced paperburden and efforts to increase the stock of skilled labour.

"Attention to other business problems like business advice, training and marketing is as crucial as accessing financial capital and efforts must be made to ensure that there is a balance between the two essential elements."

Finally, the lack of information about available tax breaks to business, available sources of equity capital, the value of strong capitalization, and so on can act as an impediment to business access to financial resources. Many studies reviewed during the research for this study, have reported that the lack of business awareness of available programs means less use of the programs and a reduced impact.

To address this concern several provinces have initiated programs within their business development departments to provide financial advice to prospective and operating businesses. The services give advice to business people on available incentives and tax breaks, help identify venture capital and joint venture partners, prepare business and financial packages for presentation to banks and so on.

"Access to information is as important to business as access to capital and government policy should recognize this fact in design of its programming."

5.0 POTENTIAL TOOLS AVAILABLE TO INCREASE THE FINANCIAL RESOURCES OF THE TERRITORY

"It is also true and recognized in these countries that markets cannot do it all, nor

can they do what they do perfectly in all cases. For these reasons, we find many cases of selected goods and services being produced, and distributed to consumers, with a considerable amount of government involvement."
(MacArthur,1986,pg3)

In the Yukon there is a clear indication from previous reports, and personal interviews that the present market system does not adequately address the needs of Yukoners for access to financial resources and for access by business to information and advice. There is a role for government to assist in improving the efficiency of the financial market system.

The terms of reference guiding this strategy asked that the various tools available to government be outlined along with the advantages and disadvantages of each. There are numerous ways by which the government can assist the market system from direct intervention by government in the market place to indirect assistance through subsidies, grants or various forms of regulation and control.

Therefore any strategy for dealing with financial resources has several options and alternatives. In Yukon the alternatives discussed to date by Yukoners at the workshops and conferences in order to help meet the objectives are:

- 1.development of new Yukon based financial institutions,
- 2.initiation of new tax incentives and tax breaks and
- 3.modification of government grant and loan programs.

In this section of the report, there will be a discussion of these alternatives for providing government assistance to increase the access to financial resources. The discussion will be cursory and is intended to give the reader a flavor of the issues involved and the variety of options available to government in solving the problem of accessing financial capital. As the old cliché says "there's more than one way to skin a cat" and when it comes to program options in this case there are numerous ways to skin that cat.

Every province in Canada, and most countries in the industrialized world, regardless of political affiliation, use a variety of these tools in support of their economic development and there is little evidence to strongly support one initiative over another. Certain programs work best in certain situations and given certain social and economic climates than do others. The test for Yukoners will be to choose that group of tools best suited to our unique environment.

5.1 Financial Institutions and the Alternatives

"The Yukon Government (should) give consideration to establishing its own financial institution which would establish branches in rural areas, much like the Alberta Treasury Branch system" or consider "developing a system of local agents in rural areas who would be authorized to provide basic services such as cheque cashing and receipt of deposits." (IMC, 1986,pg4.22)

The rationalization of banking services in recent years and the closing of two rural bank branches has lead many people to propose the development of new financial institutions in the Yukon to service rural communities. This would reduce the time and cost associated in travelling to and from the bank, increase the communication between client and bank and improve the service base of many communities.

As an alternative to the creation of a fully fledged financial institution, the Yukon Government could pursue several alternatives including: continuing to utilize its present banking arrangements, installing automated teller machines in each community, establishing a privately oriented agency system or establishing a publicly oriented agency system.

In this section, each alternative will be discussed and the advantages and disadvantages of each outlined.

5.1.1 A New Financial Institution

The Access to Capital study recommended that a branch/agent system be considered in Yukon similar to that in existance in Alberta. Under the Treasury Branch system in Alberta the larger communities are serviced by regular bank branches similar to those in Yukon and smaller communities are served by an agent hired by the Treasury Branch to carryout basic banking services in each community.

In order to address the feasibility of creating such a financial institution in Yukon, it was necessary to obtain an idea of the costs to operate such an institution and determine from Yukon,s market size, the chances for success of the institution.

To obtain an idea of costs, a hypothetical financial institutional setting was created in which it was assumed that there would be bank branches in Whitehorse, Dawson City, Mayo, Faro, Watson Lake, Haines Junction and Teslin. This level of banking service was developed as a minimum scenario because it is the only level of service that would surpass that available under the present government/ bank arrangements. As well, it provides for a rational base for instituting a branch/agent system, similar to that at the Alberta Treasury Branches.

It was also assumed that the government would open "agency offices" in all remaining communities, with private sector personnel providing deposit and cheque cashing capabilities.

Direct branch banking costs were identified, along with estimates of expected head office costs, fixed overhead and startup costs. Included in the costs was a charge for correspondent banking services and an additional 15% was added to the costs of operating Whitehorse and 25% for operating rural communities in order to reflect the cost differentials between the south and Yukon communities.

In order to develop the order of magnitude costs, actual cost data for 1985 was obtained for a representative sample of BC credit unions. The financial information for the entire 134 credit unions in B.C. were obtained from the B.C. Central Credit Union and communities were chosen that had a similar market size, population base and rural location. Four BC communities were chosen as representative of the costs for Whitehorse, three BC communities were chosen to be representative of the larger rural branches of Dawson City, Watson Lake and Faro and three BC communities were chosen as representative of costs for the smaller rural branches of Mayo, Haines Junction and Teslin. Average costs were derived for each group and applied to the Whitehorse and rural branches. It was assumed that Whitehorse, Watson Lake, Dawson City and Faro would have full daily banking service and that Teslin, Mayo and Haines Junction would be open every afternoon.

Central office costs comes from data supplied by Alberta Treasury Branches as is information on agency costs and are estimated to be 5.75% of total expenditures. Central Office costs would include the staff required to oversee operations of the Board of Directors, investing surplus funds, developing overall marketing strategies and corporate policy etc. Startup costs were determined as the costs for furniture, lease space, etc and were obtained from data supplied by the Alberta Treasury Branch.

An fee of 3.5 % of expenses was included to cover the costs of correspondent banking services. Correspondant banking services are the charges to be paid by the financial institution to a chartered bank in order to carryout check clearing and other banking transactions through the interbank clearing system.

The agency costs for other Yukon communities were assumed to be equal to the average agency costs in Alberta which were determined to be \$13,500. These costs were applied to the remaining eight Yukon communities.

Table 15 summarizes the costs for the bank branch operations. Overall, the costs are estimated to be \$ 1.49 million per year for Whitehorse and \$1.21 million per year for the rural

TABLE 15
ESTIMATED COSTS FOR A YUKON BANK

EXPENDITURES	GROUP 1	GROUP 2	GROUP 3	GROUP 4	TOTAL
INTEREST PAID ON					
DEPOSITS	772,496.5	137,818.7	0.0		1,185,952.6
BORROWED MONEY	11,403.0	13,522.0	292.0		52,845.0
SALARIES ET AL	256,116.8	63,526.0	1,760.0		451,974.8
PROVISION FOR					
LOAN LOSSES	57,284.5	20,194.0	0.0		117,866.5
OCCUPANCY	21692.5	6,874.7	1,174.7		24,148.2
DEPRECIATION	18,622.5	4,551.3	19.3		32,334.3
OTHER EXPENSES	162,030.7	41,289.0	2,615.7		293,744.8
SUBTOTAL BRANCH COSTS	1,299,714.5	287,776.7	5,861.7	13,500.0	2,288,629.7
NORTHERN COST	194,957.2	71,944.2	1,465.4		415,186.0
TOTAL BRANCH COST	1,494,671.7	359,720.9	7,327.1	13,500.0	2,703,815.7
HEAD OFFICE COST					155,739.8
CORRESPONDANT FEES					94,633.5
STARTUP COSTS					541,893.5
TOTAL COSTS					3,496,082.5

SOURCE: CREDIT UNION DEPOSIT INSURANCE CORPORATION OF B.C.
"FINANCIAL STATISTICS OF BRITISH COLUMBIA CREDIT
UNIONS-1985"

- NOTE: 1.Head office costs are estimated to be 5.76% of total branch costs
2.Correspondant fees are estimated to be 3.5% of total branch costs.
3.Group 1 denotes Whitehorse and is based on the communities of Bella Coola,Creston,Enderby and Ladysmith whose market area is similar in size and composition as Whitehorse.
4.Group 2 denotes Dawson City, Watson Lake and Faro and is based on the communities of Alert Bay, Sayward and Houston whose market area is similar in size and composition to these towns.
5.Group 3 denotes Haines Junction, Mayo and Teslin and is based on the communities of Black Creek, Texada and Field whose market area is similar in size and composition to these towns.
6.Group 4 denotes all other Yukon communities and is serviced by an agency.

communities , with the total at almost \$3.5 million in the first year and \$3.0 million (constant \$) annually thereafter.

It must be noted that these costs are likely to be conservative. Premiums will likely have to be paid to attract qualified personnel to the rural communities and initial training costs will have to be incurred. Additional costs may also have to be incurred for additional correspondant banking services to assist the Yukon regional bank in investing funds and diversifying its holdings. As well, a deposit insurance program of some type would need to be instituted which would incur a cost, unless the Yukon Government agreed to automatically guarantee all deposits in the case of failure of the firm.

Once the costs are outlined, we need to determine the potential for generating sufficient revenue to cover these costs. On the basis of the BC credit union data, those institutions with three or more branches and having expenditures of \$3.5 million annually, needed to generate at least \$25 million in deposits in 1985 in order to breakeven and the average deposits for these credit unions was just over \$30 million. For comparison purposes, the total deposits held in Yukon banks as of the end of 1985 was \$107 million.

The question of course in assessing the potential viability is to determine the chances that these funds can be raised. In 1978 when the Whitehorse Credit Union closed its doors after twenty years of service, it was reported to have 2000 depositors and deposits totalling \$3,000,000 or \$1500 per depositor. If we assume that the Yukon Bank can attract 20% of the population 15 and over in Whitehorse and 100% of the population 15 and over in the rural communities and if each person invested an average of \$1500 each, then the bank could generate slightly more than \$13 million in total deposits from 8743 depositors.

"On the assumption that the Yukon Bank can attract 8743 depositors each of whom deposit \$1500 on average, the operation would not be viable."

If the Yukon Government were to ensure continuous deposits on hand at this financial institution in the order of \$15 million, it would likely provide a sufficient base for the bank to breakeven.

The Yukon government could also contract a number of its services presently given to territorial agents such as licence plate sales, camping permits, fishing licences and so on to the local branches, thereby creating a larger revenue base. If the Yukon Bank were to receive \$5 per motor vehicle licence sold, and \$1 per business licence, marriage licence, fish and game licence and death certificate sold, it could generate an additional \$32,000 annually based on 1985 data from the Yukon Liquor Corporation.

Land claims funds if invested in this institution would also provide a substantial investment base.

"If the Yukon Government keeps on hand continuously \$15 million of its funds in the Yukon Bank, if additional revenue can be generated and if some land claims funds deposited in the bank, it has the potential to be financially viable. The term potential is used, of course, because there are numerous factors to take into account in ensuring viability including costs, service, and investment potential."

There are several advantages to having a Yukon based financial institution. First, there will be more immediate and convenient access to financial services by Yukon residents. Second, stable employment will be created in many small communities, around which new business services may spring. This is caused by the fact that the income will circulate within the community on goods and services rather than being exported to Whitehorse as is the case now. Third, decisionmaking is likely to be more responsive to local needs rather than national priorities. Finally, the institution can build a sense of community pride and support in having a local institution. This sense of pride was a major contributing factor in the growth of Alberta's Treasury Branch system.

On the negative side there are other problems constraining the feasibility of a Yukon financial institution aside from the serious hurdle of financial feasibility. First, an essential ingredient for the successful operation of an efficient and effective financial institution is competent management. The failure of both the NWT and Yukon credit unions, from discussions with individuals and available correspondence, was directly caused by incompetent management and poor lending practices. As well, the Estey report on the collapse of the CCB and Northlands Banks confirmed a similar situation with these regional banks when it stated " the bank (Northlands Bank) suffered during much of its existence from a shortage of senior management experience in banking."(Estey, 1986,p4)

Yukon will have to be able to attract competent management from the south to live in small Yukon communities if it is to succeed. To obtain these qualified people could prove to be very difficult because the new banking laws are expanding competition and creating rapidly increasing demand for competent banking staff throughout Canada. The questions to be asked will be the extent to which these people can be attracted to live in the North and if so, at what cost.

Second, a regional financial institution with principle investments in its region is far more susceptible to the vagaries of that regions economy and if successful is likely to be more conservative than established banks in its lending practices. Credit unions in BC, for example, in an effort to protect the assets of their principle clients, the depositors,

do not become involved in any commercial loan portfolios due to the unacceptably high risk. This conservative philosophy mitigates against providing financial assistance to small business in rural communities, which is a major objective of this strategy.

On the other hand, there might be strong community pressure for the government's banks to extend this service, which could jeopardize the viability of the institution and the funds of its depositors by getting into high risk financing. Again, the Estey report provides possible insight when it stated that "the improvident lending practices of these banks (NB and CCB) created a demand from those lacking in the capacity to repay their borrowings and to whom credit should not have been extended" which lead directly to the failure of the operations.(Estey,1986,pg2). The Whitehorse Credit Union was said by its last manager, Mr. David Collins, to have failed for similar reasons (Collins,1978).

In considering proceeding with a Yukon bank, the government would have to seriously assess the political risks involved in allowing loans to be extended to business which in turn could bankrupt the business versus the risks of public backlash for not having provided full financial services.

Third, the process of developing a fully fledged financial institution is a long term commitment and one which will require Yukoners to commence with a basic service and build upon that success. The Treasury Branches of Alberta took almost thirty years to become a full service financial institution and for the first six years remained only a deposit taking entity. The Treasury Branch moved slowly into mortgages, personal loans and commercial accounts over the course of its forty year history as it built up deposits, experience and expertise. Even today, the Treasury Branches are just becoming involved in some commercial loan portfolios such as energy companies. To be successful in the long term, Yukoners would have to be satisfied with a very long term approach to banking in Yukon. This approach would see the territory commence with basic banking services and expand services, only as the market permits.

Again, the long term approach of the financial institution goes against the major rationale of creating a new institution which is to meet the needs of the business community for access to business services. A prudent new Yukon financial institution would not get into the higher risk commercial loans for sometime and thus a major reason for establishing the institution may be in doubt.

Fourth, in order to be successful, Yukon's financial institution would have to obtain a reasonable market share of the total population of the territory. With the total market for deposits at \$107 million, it would mean that the Yukon Bank would need to obtain 28% of the total market to break

even without government assistance and at least 10% with government assistance. The source of this share will likely come from Whitehorse at the expense of the other competing financial institutions.

To obtain this market share, in the first instance, may prove difficult as the recent collapses and mergers of regional financial institutions has lead risk averse Canadians to consolidate deposits to the safer more established big five banks. Surprisingly, even higher interest rate inducements and better government deposit guarantees have not proven that successful in attracting customers to smaller regional banks. Yukon will have to induce Yukoners to move their assets out of the well known established banking system, into the unknown Yukon bank.

On the other hand, if Yukon is successful in developing this market share there is the very high risk that one or more established banks will leave the territory. Some bankers interviewed indicated that Yukon was a marginal operation at best and that any assault on the small existing market could drive them from the investment scene. This action would do little to increase competition or to strengthen the overall investment community in Yukon. The CIBC in particular would likely leave its rural communities at the first opportunity provided by a Yukon based financial institution. A private sector monopoly would then be replaced by a government monopoly, without any attendant guarantee of better or more complete service.

Finally, the Yukon government would be required to pass legislation creating the institution and to provide equity capital to ensure its survival. Government would have to pass legislation guaranteeing deposits or establish an insurance fund. And government would likely have to invest a sizable amount of its available cash in the bank rather than in other possibly more lucrative investments. The government would have to assess the value of placing this equity capital and its regular deposits in the Yukon based financial institution against the benefits that could come from using the funds for other endeavors such as loans , loan guarantees, tax credits, etc which have a more direct impact upon business and employment.

"Overall, the prospects for a regional Yukon bank that is viable, provides full financial services and enhances competition in the market place is poor."

"A government run financial institution could be feasible if the Yukon government deposits its funds in the institution; but a Yukon financial institution would be very risky, could undermine the existing banking structure and is not likely to provide commercial banking services in rural communities in the immediate term."

The Northwest Territories government has commissioned an internal investigation into the possibility of a treasury branch style system and the Newfoundland Royal Commission on Employment and Unemployment in its report of June 1986 indicated a desire to increase the availability of financial institutions in rural areas.

"If the risks and attendant problems associated with Yukon pursuing a regional institution on its own prove too onerous, consideration could be given to exploring the possibility of a northern institution which would service rural communities across the north and be supported by both territorial and provincial governments."

5.1.2 Subsidized Banking

On September 16, 1986, the Yukon government announced that it had reached an agreement with the Canadian Imperial Bank of Commerce (CIBC) to provide banking services to Yukon's rural communities. Under the agreement, the CIBC continues to retain their bank branches in Watson Lake and Dawson City and provides weekly banking service to Carmacks, Haines Junction, Teslin, Faro and Mayo. In this way approximately 95% of all Yukoners receive some form of regular access to basic financial services and all communities with more than 400 people are serviced weekly. The cost to government of providing this service comes in the form of forgone interest on deposits.

The present banking arrangements appear to provide a reasonable alternative to community banking. Banking service is provided at least weekly to all communities with a population of 400 or more. At a cost of between \$150,000-\$200,000 per year in forgone interest or an average of \$15,000 to \$20,000 for each of the seven communities served, this indirect form of bank subsidization provides a reasonably inexpensive means of extending basic banking services to the rural communities.

However, not every Yukoner has regular access to basic financial services and many only have access once or twice a week. Furthermore, only very limited business financial services are provided in these communities. The problems associated with cost and inconvenience in accessing the established commercial banking system is not eliminated.

Concerns were recently expressed by rural citizens about the service during an informal tour of communities by YTG staff and a representative of the Alberta Treasury Branch. Many citizens indicated that they continue to use the commercial banking system in Whitehorse rather than the new system due to the infrequent nature of the service, a lack of trust in the quality and reliability of the service, and the fact that many Yukoners have long established links with other banks in Whitehorse.

This arrangement also does not create a permanent financial presence in the community around which income can circulate and other business services can grow nor does it provide commercial services to the business community.

This approach also does not have any mechanisms for controlling for costs nor does it provide incentives to the bank to increase their service or provide more financial services. It is a straight cost plus arrangement which can be continued or terminated.

As an alternative to indirect subsidization of banks, there have been suggestions of possible direct subsidization of banking services in several Yukon communities. Government could provide all the physical facilities and cover the operating and maintenance costs of the facilities. Banks would then, obtain profits off the deposits and loan portfolios sufficient to sustain their interest.

Banks appear to be very reluctant to carryout this service regardless of cost, but according to conversations with banks and NWT officials, the costs could range from \$200,000-\$300,000 per branch per year plus initial capital costs. This would cost between \$1.2 million to \$1.5 million per year plus capital costs to place branches in the six rural communities. These costs would increase regional service from weekly to daily but would not increase the coverage of personal banking services to all communities, at a cost equal to or greater than that of an independant Yukon financial institution. Moreover, the government would be providing this subsidy without any attendant chances of obtaining revenue, as would be the case if they owned their own banks.

The great advantage of the subsidy approach is the fact that the established banks would have a broad pool of expertise upon which to draw their management personnel and a much stronger support system for the rural bank branches. Competition could be sustained by having banks bid on each community each year and might encourage the major banks to install more senior personnel in Whitehorse to service the rural banks.

"Direct subsidization of the banks seems to have most of the costs to government of owning their own financial institution and non of the potential revenue possibilities and is not considered a reasonable alternative. The indirect subsidization of services does appear to be reasonably cost effective but is not providing the level of service that Yukoners appear to expect from the system."

5.1.2 Automated Teller Machines

Automated teller machines provide a complete range of banking services to the average citizen in thousands of Canadian

communities. These services include withdrawals, deposits, transfers between accounts, bill payment, balance inquiries, and basic lines of personal credit.

Yukon has two such teller machines located in the Royal Bank in Whitehorse. These machines were designed to provide an alternative to the human bank teller in performing the basic deposit and withdrawal functions. The customer uses a plastic card and a computer code to withdraw money from a machine. A deposit or bill is placed in an envelope and inserted into a slot in the machine as the person enters the amount of the bill or deposit. The envelope is opened the next business day and the deposit amount or bill verified before the transaction is processed through the customers account.

Automated teller machines could be installed in each Yukon community and connected by telephone link to the universal electronic transfer system developed by the Interac Association. This would link rural communities with Whitehorse and to the system worldwide when travelling.

The Automated teller machine (ATM) has many advantages in Yukon. It is a fully contained banking service that is easy to install in every Yukon community. It can provide all the basic banking services and still allow individuals to associate with any one of the established banks in the territory. The service could be made available 24 hours per day and 365 days per year if it was desired. And the community need not have a new bank or other facility built to house the equipment or to pay the costs of overhead or other special fees required in a Yukon financial institution.

While the concept is interesting, there are several drawbacks to the system. First, the automated teller machines are costly to purchase. Quotes provided by NCR Canada indicate that a basic free standing self service terminal will cost \$31,600 to purchase while terminals able to withstand broad temperature changes will start at \$45,300. Options to improve security or increase the range of services will add \$8,000-\$10,000 to the price. In rural communities the more expensive terminal would be needed along with added security. For every community the initial capital costs were therefore estimated to be about \$825,000.

Second, there are substantial additional operating costs for regular maintenance and repairs and service of the machines. While the installation of machines in 14 communities would likely justify full time maintenance staff in Whitehorse, NCR quotes maintenance costs of \$2102 to \$2500 per year per machine plus travel costs and incidental expenses. Given a need to visit each machine a minimum of once per month and given an average travel and expense claim outlined by NCR of \$870 per visit, the total maintenance costs would be at least \$200,000 per year.

Some form of accommodation would be required for the machine and bonded merchants or permanent persons hired to verify the deposits, load the machines with cash and transport the documents to Whitehorse. Costs would be incurred for the telephone communications links between the communities and Whitehorse and for banks to process the deposits provided by the system. The complete costs could not be estimated without a thorough feasibility study but they could be in the order of \$150,000 per year. Therefore the costs for lease space, staff and communications links could easily add \$250,000 per year to the operating expenses of the machines. In total, then the minimum costs would be in the order of \$1.125 million for the first year and \$450,000 per year thereafter or an average cost per community over five years of \$45,000 per year

Some cost recovery is possible. The charter banks recover between 75 cents and \$1.00 for each transaction in the system. These charges would likely go to cover the processing charges for the banks using the system. An additional charge for the service could be possible but it could likely not be more than \$1.00 per transaction. At this rate it would require a minimum of 700,000 transactions per year in rural communities, or 117 transactions per person per year in rural communities, in order to breakeven.

Fourth, cost factors will be hard to regulate as they can fluctuate wildly due to the vast array of potential problems that can be encountered in operating the machines in rural areas and the delay time caused by malfunctions can create customer dissatisfaction. Automatic teller machines were intended to supplement human tellers rather than acting as an alternative to a regular banking institution.

Finally, the automatic teller machines are not geared to providing banking services to the business person in local communities. The banking system does not easily handle deposits by a variety of clients and time delays in processing the accounts could hurt operating cash flows. The machines would not have the capability to provide loans other than the standard and costly credit card lines of credit. And the machines would not provide monthly statements or other services needed by most small businesses.

"Automatic teller machines do not appear to be the most attractive alternative at the present as they are costly, require a fairly extensive and elaborate support organization to provide basic banking services and do not provide the level of financial services desired by Yukoners."

5.1.3 Private Agency System

While there may be concern for the feasibility of a Treasury Branch or other financial institution, significant interest exists for the development of the agency portion of the Treasury Branch system in conjunction with an existing bank.

Under the Alberta Treasury Branch system, basic banking services in 110 small communities is made to available through local agents. A local resident such as a garage owner, hotelier or retail operator is recruited to act as a part time banker on their own business premises. Each is provided with a sign, a safe, a cash float and the required forms. Local agents cash cheques, accept deposits and provide loan applications to prospective clients. The agents are also responsible for replenishing their cash and delivering deposits to the nearest Treasury Branch each day.

Agents receive a basic fee of \$200 per month and a commission of 1/4 of 1% of the value of deposits to a maximum of \$200 per depositor. Additional commissions are provided for loan referrals. Over the course of a year agents are paid between \$2,000 and \$70,000 for their service. In 1985 the average cost in Alberta was \$13,600 per agency. Capital costs to start an agency run between \$2,000 and \$5,000 per agency.

In order to establish agents in each rural community would therefore cost about \$190,000 per year. In addition to these basic costs an additional cost would have to be incurred to develop a distribution system to transport cash and documents between the rural communities and Whitehorse. The distances are too large to permit the individual agent to commute to the nearest bank each day. The cost to set in motion a regular distribution system might add 100,000 to the cost to cover a bonded collection agent and travel costs. The deposit verification would likely not occur every day but might be set at once per week. This raises the costs per community to around \$22,000 per year.

By establishing agents in each community, a process is set in place to provide improved service with daily personal banking. Local firms are used to provide the service and income and employment is maintained in the community. The costs would be higher than the use of the present banking arrangements but likely less than using an automated teller system and much lower than using a branch system.

The disadvantage of the completely private system is the additional costs of establishing a distribution system for the deposits and cash and establishing a relationship with the banks to deal with deposits and withdrawals from their system. As well, there must be a system set up to monitor the agents and to ensure that all proper administrative procedures are followed and that the private staff are properly trained. Legislation may infact be required and government staff time used to monitor and train the private business people.

"A private agency system appears to have some merit in delivering a basic banking service to Yukon communities, while supporting the local community base."

5.1.3 Government Run Agency System

Finally, the government could put in motion, a agency system operated through the Yukon Liquor Corporation. The government authorized system would reduce operating costs without an attendant loss in service. The system would see local liquor outlets in five rural communities of Yukon provide regular banking services to complement their liquor sales. The government could expand the role of the territorial agents and allow them to provide daily cheque cashing and deposit taking on behalf of clients through these outlets.

A special area could be set aside in each liquor store to provide the agency service and the daily movement of cheques, cash and deposits could be handled through the existing distribution network established for liquor.

A private sub agency system could in turn be established in the other nine communities without liquor stores similar to that of the Alberta agency system. Local business people could be responsible for the agency functions in the small communities and for delivering deposits through the established distribution system.

The cost to establish the government system is estimated to be \$117,000 for sub offices in the nine communities and \$15,000 for capital equipment for these subagencies, plus any additional costs for bonding the territorial agents. If one assumes that the existing territorial agents might get an additional \$2,000 per year for the added responsibility, the total operating expenses would be about \$130,000 annually.

In addition to conducting banking services, the territorial agents in the nine rural communities might also be allowed to conduct all the functions of the territorial agent including liquor sales, motor vehicle licences, marriage and death certificates, health care insurance premium collection and fines collection. If this were done the governments services would be expanded to every community and a variety of vital government services are provided locally.

This alternative has several excellent advantages: First it strengthens the role of the territorial agents, providing personal banking and expanded government services in all Yukon communities. It uses the private sector extensively but involves a lower cost than other alternatives. Third, there is no need to establish a separate distribution system for collecting the deposits and distributing the cash. The Yukon Liquor Corporation also has a well established financial administrative system for dealing with the various other accounts handled by the territorial agents and this system could easily be adapted to the personal banking services. Fourth, the liquor corporation has the ability to train the new territorial agents in their duties and monitor their activities regularly. Fifth, the extra costs of sending

Whitehorse staff to smaller towns to conduct government business like motor vehicle licence sales would be eliminated and the costs savings can go to offset the costs to establish the service. And finally, by adding a small service fee to the existing pricing structure of items like motor vehicle licenses, the entire cost of the service can be covered. For example, if all motor vehicle licences went up by \$3, all extra costs of the service could be recovered.

Local residents could continue to support their own private financial institutions as they do now through debit cards like Mastercard or Visa or through established chequing or chequing savings accounts, with the territorial agents simply acting as a transfer mechanism, a human automated teller if you wish. As well, the local banking facilities will allow income to remain in the communities, to have the money circulate locally and to provide a stimulus for to new business development. At least nine new jobs could be created in local communities if the service was provided.

The disadvantage of this alternative is the requirement for additional responsibility for the Liquor Corporation, and the social stigma of closely tying liquor and money. As well, this alternative again does not assist the rural Yukon business community to improved access to commercial banking services.

"The use of a government agency system would appear to be the least expensive and most beneficial method for extending basic banking services, as well as providing other government services."

5.1.5 Increasing Competition

As a closing note on this section, it should be noted that the Yukon Government has in place no convenient method for attracting near bank financial institutions. The Whitehorse Credit Union operated successfully from 1957 to 1977 and as you can see from Table 15, the costs of operating a small credit union is not so large that it would be impossible to restart such an institution on a modest basis. However, the Credit Union Act was repealed in 1983 and there is no territorial legislation in place to now to allow for credit unions to be established or for government to govern the conduct of this institution.

In addition, the Yukon Government stands alone in Canada as having no legislation governing trust companies and other similar financial institutions. Trust companies and other financial institutions carry on a sizable and growing portion of the financial services in the country and provide a vehicle for encouraging greater competition in the market place. The Canadian Federation of Independent Business surveys clearly show that businesses prefer to access near financial institutions over the established banking community and any

impediments to allowing them to enter should be removed.

"As a means of increasing competitiveness in the market place government should remove legislative and regulatory impediments to allowing trust companies and credit unions to enter the Yukon. Of course, whatever legislation is contemplated should be consistent with the regulatory reform of financial institutions presently being contemplated by the federal government."

5.2 Grants, Subsidies, Loans and Tax Incentives

"A good number of delegates called for governments to minimize direct aid...Success without grants." (YTG, Fall Conference,pg15)

At the fall conference on Yukon's economy, a broad range of delegates expressed fears about the use by government of grants and subsidies to industries and called on government to provide other forms of assistance such as loans, loan guarantees and inventory financing. On the other hand, many delegates felt a need for tax breaks and grants as a means to encourage development of target sectors (YTG, Fall Conference, Pg.20,21).

Financial assistance by government whether it comes in the form of a grant or a subsidy is intended to encourage a person, group or organization to pursue certain activities. Governments in every country of the industrialized world have used a variety of instruments to assist development including capital grants, investment grants, loans, low interest loans, forgivable loans, repayable grants, loan guarantees, interest rebates, working capital and participation loans, equity participation, transportation subsidies, duty remissions, operating cost subsidies, labour subsidies and subsidies for counselling services. (Yuil,1983;Savoie,1985)

Government has also provided infrastructure free of charge to businesses as a means of inducing investment along with various types of tax credits, and other tax incentives. Infrastructure inducements have come in the form of construction of basic infrastructure (road, water, sewer,etc), subsidization of construction costs, and construction of buildings. The tax incentives offer a wide range of options as well, including those based on raw materials, labour hired, capital invested or profits, and may be granted through relief of either direct or indirect taxes (Allen, 1979;Bird,1978).

In order to develop a strategy for pursuit by government it is essential that individuals be aware of the various types of financial assistance and the advantages and disadvantages of each. Every type of financial assistance program has some positive aspects and brings benefits to the economy but each

has costs and these costs must be weighed against the benefits accrued to get a true picture of their value. As explained earlier, Yukon has chosen to use the entire package of assistance tools to aid Yukon development.

Each form of assistance has its supporters and opponents; but it must be clearly understood that all forms of this type of assistance constitute some form of subsidy. As a recent Economic Council of Canada report found "loans can be differentiated by grants only to the extent that they provide different levels of subsidy.(Binhammer,McDonough,and Lepore,1983,pg.1).

Hence, a low interest loan is every much a grant as is a nonrepayable contribution. A loan guarantee that reduces interest payable is every much the same as an operating subsidy in terms of providing increased income or reduced cost to business. All have the same effect, they simply use different methods to achieve the same result. As such, Yukoners should give consideration to determining the most appropriate method to assist business rather than being concerned as the whether it is a loan subsidy or a grant subsidy or a tax subsidy.

For the purpose of this report forgivable loans and grants are grouped together as they provide more immediate cash incentives which inject equity rather than debt. Preferred interest loans, loan guarantees and interest rebates are grouped together as they have been found to have the same general impact in reducing debt repayment and initial operating costs. Interest free loans and deferred payment loans are significantly different from either form. These activities have the impact of both reducing operating costs and providing a defacto cash grant. Tax incentives impact on a firm's net return on profit, while infrastructure subsidies eliminate debt charges on fixed overhead.

5.2.1 Grants and Forgivable Loans

Cash incentives or grants have proven to be the most popular type of financial assistance used by governments throughout the industrialized world to increase business development. In the 1980's, all OECD countries have developed least one capital grant program to assist development and every province and territory in Canada has used one or more program.(Savoie, 1985,pg2).

Grants usually take the form of a cash payment or non-repayable contribution to business in order to finance specified expenditures. Grants can be provided with or without attendant conditions regarding such things as employment, operating seasons, and so on. Forgivable loans are standard loans provided by government in which a portion of the interest and/ or principle is forgiven provided the firm meets certain conditions established by government, again regarding

items like location of business, employment, types of employees, etc.

The supporters of cash grants list several reasons for their preferred use. First, grants provide cash in the early years of operation, precisely when it is most needed and most difficult to obtain.

Second, the entrepreneur is provided with a firm assurance of the terms of the financial benefit to be received. The applicant gets an immediate benefit whereas loan guarantees or tax incentives have benefits which come later when it may be too late for the business person and low interest loans have benefits which are not easily identified.

Third, the cash grant provides an immediate equity injection to the entrepreneur, reduces the burden of debt and increases the stability of the small business during those critical startup years. The equity injection also strengthens an entrepreneurs request for debt infusions to complement the equity when approaching a financial institution.

Fourth, cash grants are more easily understood by smaller businesses and the benefits easier to determine than more complicated processes such as low interest loans, tax incentives or indirect subsidies. For example a 20% cash grant will provide an immediate \$200 for a 1000 project while an interest free loan could provide the same \$200 payment, only spread out over the course of a year at savings of \$16.67 per month. The small business person can see the immediate benefits of the grant and be more likely to invest than might be the case with the other option.

Fifth, the maximum contribution from a cash grant is usually more flexible, thus allowing administrators the discretion to provide assistance relative the the need of the applicant and the viability of the project. Cash grants can be used more selectively to assist specific groups and organizations than can other forms of assistance. Funds can usually be provided more quickly and with less red tape than other forms of assistance like loans and loan guarantees.

Sixth, cash grants have often proven advantageous to governments as they provide an immediate and visible sign of government support to business.

Finally, cash grants are said to involve less administrative costs that do other forms of assistance such as loans, low interest loans, or repayable contributions. Staff are involved in the application and approval process but there are no long term costs associated with monitoring operations to ensure repayment of loans, forclosing on poor loans or government ownership of assets left over from forclosures. As well, cash grant programs and tax incentive programs can be cancelled almost immediately if there is a concern over the

effectiveness of the programs, while loan programs require continued maintenance for some time after the program is cancelled in order to collect outstanding obligations

Opponents of cash grants argue that there are a number of disadvantages to the use of this instrument for government policy. First, many firms and Yukon businesses, in particular, have been critical of cash grants as they are seen as unfairly subsidizing unnecessary competition. The firms argue that government is incapable of picking "winners" through these incentives and often jumps to the rescue of "losers" to the detriment of firms that have survived without the financial assistance. Demonstration projects are considered an exception to this process.

Second, certain researchers argue that cash grants have had limited effect in encouraging businesses to invest who would not otherwise have done so. Firms locate where the market and other conditions dictate a profitable operation will ensue and cash grants only increase profits, not employment or income.

Third, many researchers have argued that most cash grant programs and those in Yukon are no different, provide far greater funds to lower the cost of capital than they do to lower the cost of labour. Thus these cash grants are biased in favor of capital not jobs and are inconsistent with the intent of most regional government to increase employment. These programs need to ensure that if the objective is employment rather than capital formation, incentives should be provided to finance employment along with capital.

Finally, cash grants may require less administrative costs than loan programs, but they remain more costly than tax incentives or other tax based alternatives. Tax incentives, of course, use the established tax system and often require no additional staff to implement. Programs such as the Small Business Loans Act use existing institutions to do the work so any costs are absorbed by the bank and in turn by the client.

The empirical evidence regarding cash grants tends to indicate that the grants have a positive impact upon growth and development, rarely impact unfairly upon competition and can provide a positive investment for government. On the other hand, there is a consensus in the literature that the impact of grants is usually greatly overstated by officials implementing the programs.

A fairly extensive body of literature exists on cash incentives in Canada and the US, particularly on the federal government's Regional Development and Industrial Assistance Program, from the point of view of income distribution, economic efficiency and incrementality—the later issue involving the impact the grant had on increasing employment, income, etc.

Every major research study on the topic (LeGoff, ECC, Dudley, Springate, Cannon) reviewed in the research for this study has concluded that government's cash grants have provided a positive impact on economic development but the evidence varies on the size of the impact. Every study concludes that the cash grants provide an immediate and necessary equity injection which reduces start up costs, reduces long term debt problems and increases the opportunities for proponents to access traditional bank financing.

The grant financing has been very successful in providing longer term employment opportunities and most firms remain in business for more than five years. With respect to the impact on inducing firms to commence operations, some studies show evidence of as little as 25% of the projects as being induced to commence operations when they would not have done so otherwise while others estimate as much as 70% of the projects commenced operations because of the assistance. The majority of the evidence though seems to indicate that about half of the projects would not have started without the presence of these forms of government assistance.

In the Yukon few studies have as yet been done on the impact of cash grants in inducing new business and employment but those that have point to positive contributions for the programs. The positive impacts of the tourism subsidiary agreement are clearly evident in Dawson City and eating Yukon alphasprouts is possible today through financial assistance. Suffice it to say, it would appear that many projects would not have proceeded without the assistance and that the benefits provided were tangible.

The Special ARDA evaluation, the only formal evaluation available on business development programs providing grants, indicates that commercial projects who received cash grants created 256 jobs, spent \$8,481 per job, saw 38% of funds remain in the community and 58% in the territory and still had 73% of all businesses in operation at the end of seven years. The program obtained 85% of its workers from the ranks of the unemployed (DPA, 1984)

While data on the investment impact is not formally available, an informal look at the program in 1984 indicated a positive investment for government in that the cost to the Yukon government was less than the tax revenues from the jobs created. (Heartwell, 1984)

Several studies have also indicated that the grant programs are capital biased (Woodward, Knowler) and inconsistent with a regional policy intended to increase employment and income as well as business starts. These authors stress the need for cash grant programs to place equal emphasis on capital and labour as a means to eliminate this bias and increase the overall impact of the funding mechanisms. A number of the Yukon government EDA subsidiary agreements do not as yet

provide allowances for labour in the eligible costs and may in fact be capital biased.

Finally, all the research material supports the contention that the grants can provide selective and flexible levels of assistance required to respond to the special needs of a region. The maximum allowed contribution under grant programs can range up to 100% of the eligible costs of a project. In this way, government can establish a reasonably standard program such as that development under the Economic Development Agreements; but having maximum levels of assistance adjusted depending on the needs of specific projects or applicants. In this way, Yukon can accommodate the special needs of rural applicants, natives, women and others without having to necessarily devise new programs. Government simply adjusts the size of the subsidy to business by readjusting the maximum amount of assistance.

"Cash grants appear to provide a positive impact upon business equity which is a requirement of Yukon's business community. However, they do not provide any extra incentive to spur businesses to meet long term development objectives as the funds are given out immediately after the capital expenses are in place. Forgivable loans provide the same impact as cash grants but provide an added incentive of tying the amount of the grant to the success in completing the conditions of the program."

"Grants appear to be an appropriate instrument of economic development as they provide immediate equity injections, provide immediate impact, involve quick payment and limited administration costs."

5.2.2 Loans and Loan Guarantees

Low interest loans and loan guarantees have been supported recently as a major mechanism for assisting business. The Yukon Visitors Association has endorsed these methods of financial assistance as has the Yukon Forest Industry Association and the Yukon Livestock and Agriculture Association. At a workshop on February 1, 1987, the YLAA called for government to expand its low interest loan program as a means to assist renewable resources industries, particularly agriculture.

Government lending programs have involved the government in lending funds to small businesses through a government department or agency, usually in the form of a demand loan, a term loan or the purchase of a small business's equity. Almost all loan programs provide funds at a rate below that of the private lender, thereby providing an "implicit" subsidy to the applicant. Some programs such as the Loan Assistance Program do not require collateral while others such as the Federal Business Development Bank do require collateral.

The subsidy impacts on reduced repayment requirements and therefore assists the initial startup. The actual cost of the subsidy depends upon the degree of interest rate subsidy and the type of repayment schemes.

Loan guarantees are guarantees extended to the established banking system by government that obligates government to reimburse the bank for any losses incurred to a bank from a particular loan. Loan guarantees usually involve a subsidy in that the guarantee allows the applicant to obtain credit at a rate less than he or she would otherwise have obtained.

Again loan and loan guarantee programs have both supporters and critics. Supporters indicate that loans and guarantees are extended by government to individuals or firms who would otherwise not have access to capital because the project risk is too great or existing financial institutions do not wish to invest in that particular region, type of business or client group.

Second, loans impose an obligation on the part of clients to repay the funds and therefore business proposals are more focused on developing a project than accessing "free money".

Third, regular loans and loan guarantees are not seen as a grant or subsidy, while low interest loans are seen as a form of indirect assistance that does not directly impact upon competition.

Fourth, government loans where government does not require collateral are seen by banks as if it were equity. Firms can approach a bank for further debt financing knowing that their obligation to government will enhance not deter further financial assistance.

Finally, loans are repayable to government with interest and therefore the funds will return to the government for reinvestment in other areas or other projects. The cost to government is seen as only the interest forgone on any subsidized loan portfolios. In cash grant and tax incentive programs, government loses the entire amount of the expenditure.

On the other side, opponents to the loans and loan guarantees point to several problems. First, they indicate that small business for the most part has no problem in obtaining debt and that the loan programs simply compete unnecessarily with the existing banking community.

Second, opponents indicate that small business in Canada is already heavily dependant upon debt and that any efforts by government to provide further debt only increases not decreases the risk of failure. The need they argue, is to increase equity not debt.

Third, low interest loans and loan guarantees are a form of subsidy that is simply hidden from the public. A loan subsidized at 5% means that government has lost that five percent which on a portfolio of loans of \$100,000 means an annual cost to the taxpayer of of \$5,000 per year. Government it is argued must treat this forgone revenue as a subsidy and consider these implicit costs against other uses of the public funds.

Fourth, loan programs by government are usually intended to provide short term financing when the problem of most small business is a preponderance of short term rather than long term debt. The end result is to place an overly heavy debt burden on a company during the critical startup years and subject it to serious instability problems. Such programs also contradict the strategy principles laid out in Section 3 which calls on government to encourage business to take on longer term debt wherever appropriate.

Fifth, it is argued that loan programs impose a long term obligation on government and require ongoing administrative support systems which can be costly. Loan obligations are often hard to monitor and collection proves difficult in many cases, especially where the assets are unsecured. It is more difficult to make the loan programs more responsive to the special needs of certain groups and often involves more time consuming evaluation and processing (ie. "bureaucratic red tape") than either tax incentives or grants.

Finally, if the loan programs are delivered directly by government, opponents argue, decisions on loan funding may be influenced by political pressures to be lenient on applicants, with the result that government is saddled with a large portion of poor loans.

Again the empirical evidence here is mixed. A major study done by the Economic Council of Canada on loans and loan guarantees evaluated a sample of over 14,000 businesses across Canada and confirmed that "it is not true that small businesses cannot borrow; they have higher debt to asset ratios than larger firms. The report also indicated that the majority of small businesses tended to have too much short term debt and too little long term debt.

(Gagnon, Papillon, 1984, pg85) The report chastised governments for considering loan and loan guarantees under these conditions. The Saucier report in Quebec also concluded "that government debt financing programs have not favored better capitalization of businesses. (Saucier, 1984, pg13)

Another Economic Council of Canada report on loans and loan guarantees determined that the subsidy for government loans on 14 different federal and provincial loan programs ranged between 2.2% and 22.6% of the loan value depending upon the amount of money government funds could earn in other uses and

the amount of the preferred rated.() The B.C. Development Corporation program upon which the Yukon Loan Assistance Program is based showed an average subsidy of 11%, with the subsidy ranging from 9.2% to 13.7% of the loan value. Other similar programs showed subsidies ranged from 11.5% to 19.9%..

The subsidy for government loan guarantees is substantially less according to the same study. Eight loan guarantee programs reviewed from across Canada had subsidies ranging from -0.5% to 2.9% per dollar guaranteed. The subsidy for the Small Business Loans Act was found to be 2.9%. Default costs for loan guarantees add to the implicit subsidy value and with the SBLA the default cost amounts to 2.6% of the loan value guaranteed.(Mintz, Carriere and McCaughey,1984) The total subsidy then amounts to about 5.9% for the SBLA.

While the per project subsidy may be low, program costs can be high for loan guarantee programs. Loses at the FBDB to April 1986 were over \$134 million.

The information on Yukon business access to debt seems to show that we receive access to debt financing that is similar to that available elsewhere in Canada and that financing for small business is more readily available. Data supplied by Statistics Canada and shown in Table 1 also indicates that we have higher debt to equity and debt to asset ratios than is desirable and higher than that in the rest of the North. Our experience with the previous loan program was not too successful when the program faced very high default rates leaving almost 20% of the total loan fund doubtful.

On the other hand, there are some positive impacts of the loan and loan guarantee programming. Research conducted by the University of Western Ontario on a large sample of businesses using loan guarantees concludes that "the Small Business Loan Program (which guarantees small loans) increased the amount of financing available to small business as 50 % of businesses would not have received the funding without the guarantee, and tended to stretch out the repayment term in order to lower the annual cash flow burden on the business. The researchers also concluded that the SBLA did not contribute to over financing of small business as it tended to assist business to obtain more long term debt rather than encouraging short term debt.(U. of Western Ontario,1984,pgxii)

In Yukon, discussions with local bankers have clearly indicated that the Yukon government's present loan program has increased physical access to loans by rural applicants and client groups in certain project categories. The fact that the Yukon governments loans are unsecured makes projects more attractive and may be sufficient to attract the banking community to invest in the project. The availability of grants is also considered an inducement for the banks to invest in the projects.

The Government of Yukon also need not lose money on the lending of funds under the loans program. Discussions with banks indicate that it is the fact that the government does not take collateral that makes the investment attractive not the interest rate charged the applicant. Rural applicants are often charged a premium for any loans granted in rural areas and if the rural applicant can obtain his loan at the same rate as available to a best customer in Whitehorse (ie prime plus 1%) the person still can be receiving an interest subsidy of 2-5% per annum.

If subsidizing a loan acts as an incentive to an applicant to assume more debt than is prudent then government would be unwise to provide this additional support as the size of small business debt is considered a constraint to stability.

"The Yukon Loan Assistance Program provides an implicit subsidy of between 9% and 13.7% ,and increase the debt load of businesses rather than contributing to capitalization. Loan funds appear to be relatively plentiful through the existing financial institutions and in Yukon at least the use of grants, loan guarantees and interest rebates provide a more effective way of enhancing business prospects, without the burden of added bureaucracy. If loans are required, consider them in the form of forgivable loans."

"Loan guarantees provide a smaller subsidy of around 6% of the loan value, tend to contribute to assisting long term debt rather than adding short term debt and involve no long term administrative costs. They can also be used to assist in financing working capital, inventories and larger projects and can be implemented effectively by simply extending the coverage of the Small Business Loans Act."

5.2.3 No interest Loans, Deferred Repayment Loans

No interest loans and deferred repayment loans provide a subsidy to business in the form of substantially reduced debt repayment.

These loan programs face many of the same major advantages and disadvantages discussed earlier with respect to standard loans. The major difference between the two loan packages is that the no interest and deferred repayment loan programs have a much profounder impact upon the operating position of a firm and provide a much greater implicit subsidy than do the standard programs. No interest loans and deferred repayment schemes can increase the size of the subsidy from the 5 to 22% ranges outlined in the previous sections to as much as 50% of the loan.

The immediate impact on the no interest loan and deferred repayment scheme is the immediate and positive impact on cash flows in the first few years of operation. Cash flow analyses done by D. Knowler in 1986 on projects funded under the

Renewable Resources subsidiary agreement indicate that in every case tested there were substantial increases in positive cash flows in the critical first years of operation with the use of no interest and deferred repayment schemes.(D. Knowler, internal memo, 1986) The cash flow increases were greater using these alternatives than those available for the regular and low interest loans but about half that for the grant program.

" If government insists on implementing a loans program,deferred repayment loan programs and no interest loan schemes are preferred to regular loan programs as they impose the same repayment obligations as regular or low interest loans but increase cash flows in the critical first years of operation and extending the term of the debt. The subsidy costs are higher than regular loans or guarantees but less than those of grant programs."

5.2.4 Tax Incentives

Proponents of smaller government often turn to tax incentives as a means to provide a stimulus to business development. The Economic Council analysis of financial assistance programs concluded "reduction of income taxes is the most efficient method for making small firms less vulnerable."(Gagnon, Papillon,1984,pg.85)

Several advantages and disadvantages of tax incentives have been provided over the years. The proponents of tax incentives point to the following advantages. First, tax incentives reduce the cost to private sector for administration. Tax incentives are handled through the firms standard tax administration while grants and loans often require firms to maintain separate accounts or require additional information or conditions which require time and cost.

Second tax incentives are thought to involve less bureaurcrazy and red tape as firms and government each use the established accountants and tax personnel to deal with the system and need not hire new staff.

Third, tax incentives , provide incentives for firms to be profitable and efficient and add to the overall health of the regions economy. Profitable and efficient firms obtain the tax break while less effiecient operators receive no reward. Grants and subsidized loan programs they argue simply reward the inefficient or marginal operator to the potential detriment of the existing operator.

Finally, tax incentives are often hidden from public view and thus they do not entail the stigma of "state aid" and they do not involve the intense debate over who should or should not be entitled to the funds as is the case in other programs.

Countering the positive aspects of tax incentives are those

that argue that tax incentives are not the most useful form of financial assistance to small business. First, critics argue that the benefits of tax incentives accrue only at some future date after the investment has taken place and is of limited use in assisting a business to make an investment.

Second, tax incentives they argue, discriminate against new firms, which naturally do not have income against which to write off their initial costs. Moreover, they argue that almost one half of investment is made by firms which are in a non-taxable position.

Third, the impacts of tax incentives are hard to monitor as they affect all firms in a category whether the assistance adds to new growth and development or to profits.

Fourth, tax incentives tend to be placed on specific targeted sectors or subsectors. This leads to distortions in investment decisionmaking between sectors and different types of investment assets. The overall reduction in corporate tax rates rather than using specific tax credits tends to make equity financing more attractive than debt financing and equalizes the risk across all sectors.

Finally, of critical importance to Yukon is the fact that the fiscal framework in the territory is designed to discourage government from using tax incentives as means to stimulate development. Any tax incentive that reduces the tax revenue for the territorial government will not be compensated by increases in the deficit grant and must be compensated by tax increases elsewhere or declines in program spending in other areas. On the other hand government programs that increase government expenditures and the net fiscal deficit are compensated by increased deficit funding. This places a bias on increasing government costs but not reducing government revenues.

Tax benefits also appear to have a more profound impact upon successful established firms than new businesses. Data from Statistics Canada, indicates that less than half of the businesses reporting income in 1983 under their small business statistics program were actually in a position to report taxable income. Therefore, incentives based on tax credits or other tax based inducements may not impact on the groups or regions that are in the most immediate need.

The empirical evidence to date would tend to indicate that Federal tax incentives to selected industries are successful in stimulating investment. The flow through share program for mining is a very clear example of a tax benefit that has impacted positively upon Yukon. On the other hand, the Federal investment tax incentives have traditionally favored established often capital intensive sectors for which Yukon does not presently have a great potential to develop while

penalizing a variety of other sectors such as tourism where we have a large and growing labour intensive industry.

Tax incentives also tend to favor debt rather than equity financing as a greater tax benefit is gained by writing off the costs of debt than is available through equity investments which receives its benefit through profits. The Saucier report for the Quebec government reported that "the tax system encourages the entrepreneur to remain alone in his business, thus if he needs money he will prefer debt financing to equity financing coming from outside investors " (Saucier report,pg.14)

Tax incentives would be of lesser benefit in Yukon were Statistics Canada reported that only 360 of Yukon's 1130 firms in 1983 had taxable income and were in a position to take advantage of the tax incentives. These incentives are also not well known by many small business people and they often do not take advantage of the benefits of taxation. An Ontario study reported that only 38% of small businesses actually took advantage of special tax incentives made available to them, largely due to a lack of information and knowledge of the implications of those tax incentives (Ontario, pg.113) The new RRSP changes which allow businesses to reinvest in their firms through their retirement plans is also a new change in the tax laws which is not well known in the country.

Tax reform in Canada will have to be watched carefully as it is intended to eliminate tax incentives and replace them with an overall lower corporate rates. This change in the system is expected to increase the attractiveness of equity investment greatly required by small businesses such as those in Yukon and eliminate the bias in the system towards manufacturing and other preferred activities.

"Tax incentives provide a positive stimulation to development in the sectors targeted for assistance but tend to distort decisionmaking across the entire economy. In a small economy such as Yukon where only a portion of businesses can take advantage of tax breaks, general overall reductions in taxes is likely to have a greater stimulus than selective tax incentives."

"Tax based incentives will have a negative impact upon formula financing and must be carefully considered before implementing."

"The Federal tax reform legislation can have a profound impact upon the business financial structure and its impacts should be assessed before proceeding with new tax incentives."

"Efforts by government to educate business about the availability and usefulness of existing tax incentives like the flow through shares, venture capital program, federal

RRSP program for business investment and so on will increase the access by business to capital by making better use of existing programming."

5.2.5 Equity Incentives

The concensus amongst business analysts and researchers on small business problems indicates that the largest problem facing small business is a lack of equity capital, which in many businesses may weaken requests for debt infusions, reduce business stability and inhibit long term business growth. The Saucier Commission in Quebec reported that "to reduce indebtedness should be a small business objective because well-capitalized companies are equipped to face economic recessions and to develop and expand harmoniously."(Saucier,1986,pg)

Equity financing provides funding to entrepreneurs in exchange for a portion of the profit that accrues from the firm. As well, equity investments often include some form of involvement by the equity partner in the decisions of the firm. Equity funding has not been actively pursued in Canada until recently and many researchers indicate that this is the result of " a bias of governmental aid" in which "indebtedness has been directly encouraged by guarantee and loan programs and by grants that were easier than searching for risk capital." Saucier,1986,pg). Moreover, the tax system has tended to favor debt acquisition and therefore discourage entrepreneurs from using available equity financing.

Equity financing tends to be favored by many people in recent years as it stimulates the private sector to assist in the development of the economy rather than depending exclusively upon government. As well, equity financing enhances the firms capital base and allows it greater opportunities for accessing debt financing. There is also an incentive for success of any new venture as the venture capitalist will endeavor to take active measures to ensure that the entrepreneur receives the business advise and assistance required to succeed, thereby enhancing the venture capitalists profits along with those of the entrepreneur. Finally, it provides a simple and relatively cost free means of stimulating business growth and development. There is limited government administration and can generate a minimum of \$8 in investment for every dollar in grant extended on the assumption of a 25% grant for investment.

As with all program alternatives, equity financing also has its disadvantages. Venture capitalists, like banks, are not anxious to get into very high risk projects and may not provide the required equity for new businesses and entrepreneurs who may be disadvantaged when accessing financial captial sources. Government programs tend to encourage the use of loan and grant programs which may discourage entrepreneurs for looking for risk capital sources.

Finally, equity investments involve some forms of joint decisionmaking between the investor and the entrepreneur. Many provinces have found that a large portion of small business people are reluctant to lose absolute control of their business in favor of an equity partner and often refuse equity funding until their business is on the verge of collapse when the investments are not useful. Finally, the availability of a broad range of loans, loan guarantees and grants provides the business person alternatives which may be more attractive than taking on equity partners.

Overall, it appears that equity capital can provide a positive stimulus to business development. Recent government programs across Canada to encourage the private sector to form equity firms and assume ownership up to 49% in private companies has received good reviews. These programs call for individuals or organization to pool equity capital and invest funds in local businesses. Any funds invested in these activities are eligible for a tax credit or grant from 25-50%.

As well, several provinces are considering providing added incentives to encourage community enterprises to become involved in the process. In BC there is a proposal to have community corporations be eligible to become venture capitalists. The proposal would allow any individual investing in a community corporation to receive 25% of their investment back as a grant. In addition, the provincial government would provide an additional \$1 for each dollar raised by the community corporation, with the provincial funds to come from the provinces pension funds. In this way community corporations are encouraged through a reasonably safe and efficient system.

A major study of the Ontario venture capital program by Clarkson Gordon reported that "the program(Venture Capital Program) is successfully meeting its objectives of supporting small business in Ontario through the encouragement of new equity investment by the private sector." Ontario,1986,pg109) The only criticism leveled against the program was the need to reduce the minimum capitalization levels to \$50,000 in order to stimulate investment in smaller projects.

The Yukon's Access to Capital study also supported the concept of developing a venture capital program and maintaining a smaller minimum level of capitalization, in the order of \$25,000.

In Yukon, there appears to be several reasons why an equity capital program may succeed. First, as indicated previously in this report there is a large pool of government employees, crown corporation employees and mining industry employees earning salaries above the average for the territory. This opens up a large potential pool of untapped equity capital that is being directed elsewhere at the present time. If a portion of those funds can be redirected to Yukon it will open

up new equity funds for use in diversifying the economy.

Second, in Yukon investment opportunities such as stock markets, mutual funds, and so on do not exist and any investments by individual Yukoners and Yukon pension funds would tend to be funneled into projects outside the territory. A Venture Capital program opens the opportunity for some of those funds to remain in the Yukon. It also opens the avenue to attract investment from Venture Capital pools elsewhere.

Third, venture capital investors would have a personal incentive to ensure the success of their investments, and thereby increasing their overall profits. For this reason they are more likely to be willing to provide business advice and assistance and to work cooperatively with entrepreneurs to overcome business problems and identify new market opportunities. The resources of a number of people are put to bear on a problem rather than just a single entrepreneur.

Fourth, venture capital programs allow small investors to pool their available equity and to invest in new projects, when they might otherwise not be able to do so. The programs also allow employees to begin to work towards becoming a business entrepreneur while still remaining employed. The person can belong to a venture capital firm, own other businesses indirectly, benefit from the pooled knowledge available in the venture capital corporation and begin to work towards becoming fully involved in the business community at a later date.

Communities can also use this mechanism to pool the available resources of an entire town in order to pursue economic development initiatives. Using a venture capital program concept small investors in a community can pool their resources, develop new community ventures and benefit directly from the grant and indirectly over time from the business service or product that the proceeds supported. BC recently has proposed to allow individuals to invest in community based venture capital corporations and to have the BC government loan pension funds to top up the investment funds of community corporations as a means to stimulate local development.

Finally, by providing a differential grant or tax credit that favors investment in rural areas, greater investment capital can be directed to rural areas and special groups where there is general concensus that the funds are most urgently required. By adding a small subsidiary grant for any non Yukon venture capital company investing in Yukon, you might also be able to stimulate outside investment in Yukon controlled firms and thereby level more funds for business development.

On the negative side, there appear to be three potential impediments to the equity program. First, established venture capital firms tend to be less anxious on the whole to provide

funds to new businesses and to finance businesses of less than \$100,000. The Association of Canadian Venture Capital Companies reported over the period 1972-1984, venture capital companies placed 28% of their funds in new enterprises, 35% in turnarounds and development projects, 28% in expansions and the remainder in buyouts or other projects (AVCC Annual report, 1984)

Second, the proliferation of government grant and loan programs in Yukon in recent years, may encourage potential entrepreneurs to use the established government programs rather than accessing risk capital and shared decisionmaking. Who would wish to have an equity partner when direct loans or grants are available without requiring a partner.

And third, the advantages of the venture capital program may not be obvious enough to attract either the investor or the participating business. FBDB has provision for equity investments under their program but the local Yukon manager indicated that equity financing often does not occur because entrepreneurs are unaware of the benefits of the program and by problems in bringing together the appropriate parties.

Governments in several provinces have responded to this problem by developing a service for matching venture capitalists to prospective projects. Yukon may wish to consider such a program as part of their venture capital program.

"Equity investments appear to be a simple and effective means for stimulating business development. Yukon appears to have a good potential pool of equity for investment if it can be channeled into new investment projects."

"Any venture capital program developed in Yukon should include a provision to encourage local community enterprises to pool the resources of the community to initiate new business enterprises."

"There will be a need for government to ensure that potential venture capitalists and entrepreneurs are aware of the benefits of the use of equity financing."

5.2.6 Other financial incentives

Governments can provide other direct and indirect subsidies to assist in reducing the financial burden of firms. These subsidies can take the form of assistance on energy costs, transportation, regulation, infrastructure and so on. Many of these types of programs exist within provinces and territories in Canada, as they do in many industrialized nations. Yukon has several such programs and they form an integral part of the overall government approach to assisting business. As the report indicated earlier, the indirect subsidies amounted to between \$9 and \$10 million in 1986/87.

These subsidies decrease the ongoing operating costs for business and often reduce the ancillary capital costs of the project, such as water, sewer, land, power and so on. For example, a mine may need to construct a road to its mine site in order to remove ore from its production facility. Financial assistance by government to help build the road reduces the ongoing debt charges to finance road construction and reduces the cost of providing a capital item that is not directly a part of the mines production process.

Infrastructure incentives in particular provide both private and public benefits. The private firm benefits through reduced costs but the public in general often benefits from use of the infrastructure. A road to Mt. Skookum assists the mine but also provides enhanced access by the public and a better standard of facility for people living in the area.

Specific direct subsidies such as energy subsidies can be used to selectively assist individuals groups or organizations that suffer from particular disadvantages.

Infrastructure support, particularly in rural communities, also has the advantage of providing support to more than one potential business. If government makes available industrial land, or builds facilities for businesses, or provides other social or cultural facilities in support of business development, these items are available as long as there is a community and is not dependant upon a particular business. Industrial parks, incubator malls, and water, sewer and power connections often can be used for decades and by several businesses over the life of a community.

The particular advantages of government assistance in developing community based infrastructure programs such as incubator malls has become increasingly attractive across Canada in recent years. The incubator malls provide basic facilities for fledgling businesses at reduced lease costs along with full time business advisory services to support the businesses. These types of activities can be of special use in rural areas of Yukon where infrastructure or lease space at reasonable cost is often unavailable or the economy appears too unstable to encourage business people to make a long term committment. Incubator malls and similar infrastructure can help to ellviate these impediments to business while increasing the capital base of rural communities.

A disadvantage of infrastructure development of course is the requirement for ongoing maintenance by government and communities, a cost which can at times be onerous. As well, numerous cases can be reported of infrastructure developments which for specific projects which had to be abandoned at a later date. For example, excellant infrastructure existed at the Clinton Creek mine and had to be abandoned when the mine

closed in 1978.

In addition to infrastructure incentives governments across Canada have provided funds and other incentives to stimulate community groups and organizations to develop business enterprises. Cooperatives provide an average of 0.9% of all the employment in Canada with most Western and Maritimes provinces having 1.1-2% of the labour force employed in the cooperative movement. The cooperative movement is growing at an average rate in Canada of 5% compounded annually with the lesser developed regions like Newfoundland growing at an annual rate of 14% per year. Returns on equity amongst the cooperative movement average 12% annually in Canada, with poorer regions like Newfoundland seeing rates of return on equity of 18% per year.

The nature of cooperatives appears to be consistent with government development objectives particularly in Yukon. A coop offers a unique development tool in addition to being a small business in that it combines the motivation of running a profitable business with a combined business and community spirit derived from its member-patrons, that it provides competitive services to its membership and returns profits to members based on their patronage of the system and that it contributes to the local economy of the community, facilitating local control and responsibility for economic development. Government may wish to give financial assistance to this form of community entrepreneurship as a way to stimulate new business development without the need for relying entirely on individual entrepreneurship.

"Development of programs by government to support infrastructure development should be considered equally with direct financial assistance. These activities can reduce initial capital costs, can reduce ongoing operating costs and can bring increased public benefits equal to or greater than those to be obtained from direct grants."

"Community enterprises can also provide much needed investment capital and expertise and should be used more broadly as a means of stimulating growth and development."

5.3.7 Summary

In summary, there is no right or wrong type of government incentive. Each incentive will tend to stimulate business and to assist in development. Each provides some form of subsidy and each may tend to create distortions or concerns within the economy.

Care must be taken by government to assess the benefits of each type of assistance before providing the funds to determine which will be the most effective instrument. A major US study which considered a variety of direct financial assistance and infrastructure programs in fact concluded that

the government must consider the "opportunity cost to the state-in the form of the foregone revenues (from business taxes) which might otherwise have been used to finance other programs with a better performance record (such a public works)" before deciding on using government assistance to stimulate economic development in a particular state.(Harrison,pg.253)

6.0 THE STRATEGY: CONCLUSIONS AND RECOMMENDATIONS

"The key to a viable financial infrastructure can be summed up in two words. Use it."
(Alberta,1984,pg.1)

This quotation lays out one of the fundamental conclusions derived from this study into financial resources. Today Yukon has a broad range of financial capital programs which appear to be able to accommodate the needs of any prospective entrepreneur who wishes to access them. There appears to be little need for government to add to these programs but there could be some realignment and readjustment of programming to encourage Yukon to meet the objectives laid out in Section 2 of this document and to do so in accordance with the nine principles discussed in Section 3.

In summary, the basic goal of the financial resources strategy is to ensure that Yukon businesses, entrepreneurs and individuals in all regions and sectors have full access to financial capital and ancillary financial services. The objectives call upon Yukones to make special efforts to ensure that access is possible by overcoming the impediments that certain groups have to obtaining capital and to encouraging the financial systems to operate in such a way as to increase long term stability and economic development without distorting the present market system.

The principles call on the strategy to place as much emphasis as possible on the private sector individuals and institutions to do the work, to reward businesses who meet the economic and social goals of Yukon, support community as well as individual entrepreneurship, pursue regional and sectoral equality, encourage natives to access capital and encourage other groups such as women and youth to do the same, design mechanisms which are simple to implement and understand and make governments financial support last as short as possible, equalize the opportunities for all to participate in business development and provide a positive return to government for their investment.

In light of these factors and after considering the various constraints within the financial market system, and after looking at alternative measures to assist development, the following recommendations are made for a strategy for improving and enhancing the existing financial resources

system.

6.1 Accessing Capital

RECOMMENDATION 1

"GOVERNMENT SHOULD ATTEMPT TO ENCOURAGE GREATER COMPETITION IN THE EXISTING PRIVATE FINANCIAL MARKETS BY:

A. INCREASING THE USE OF EXISTING BANKS AS DELIVERY AGENTS FOR GOVERNMENT FINANCIAL ASSISTANCE PROGRAMS THROUGH GREATER EMPHASIS ON LOAN GUARANTEES AND INTEREST REBATES DELIVERED THROUGH THE BANKS RATHER THAN FROM DIRECT GOVERNMENT LOANS.

B. DEVELOPING AN INFORMATION PROGRAM DIRECTED AT THE BANKS IN ORDER TO EDUCATE BANK OFFICIALS ABOUT THE NATURE, STRUCTURE AND PRESENT STATUS OF YUKON'S ECONOMY.

C. BRINGING BANK OFFICIALS RESPONSIBLE FOR DECISIONS ON YUKON LOANS TO YUKON REGULARLY IN ORDER TO OBTAIN FIRST HAND KNOWLEDGE OF YUKON'S ECONOMIC SITUATION.

D. PASSING LEGISLATION WHICH WILL ESTABLISH A LEGISLATIVE AND REGULATORY BASE FOR THE POSSIBLE ESTABLISHMENT OF CREDIT UNIONS AND TRUST COMPANIES IN YUKON.

E. USE THE DEPOSIT CLOUT OF THE YUKON GOVERNMENT TO ENCOURAGE BANKS TO PROVIDE MORE LOANS. THE FIXED RATE FINANCING PROGRAM IN SASKATCHEWAN IS AN EXAMPLE OF THIS TECHNIQUE WHEREBY GOVERNMENT LENDS FUNDS TO BANKS AT PREFERRED RATES ON THE CONDITION THAT THESE FUNDS ARE RELOANED TO BUSINESSES IN THE TERRITORY AT FIXED RATES.

F. IMPLEMENTING THE VENTURE CAPITAL PROGRAM IN YUKON WITHIN THE NEXT YEAR.

RECOMMENDATION 2

GOVERNMENT PROGRAMS SHOULD BE DESIGNED TO PROVIDE SPECIAL INCENTIVES TO EQUALIZE OPPORTUNITIES FOR ENTREPRENEURS FROM RURAL COMMUNITIES, NATIVES, WOMEN AND YOUTH. AS WELL, SPECIAL EFFORT SHOULD BE GIVEN TO DEVELOPING COMMUNITY BASED ENTERPRISES AND COOPERATIVES.

6.2 Equity Capital and Long Term Debt

RECOMMENDATION 3

GOVERNMENT BODIES OFFERING GRANTS, LOANS OR LOAN GUARANTEES TO BUSINESS SHOULD REEVALUATE THEIR PROGRAMS TO ENSURE THEY ARE CONCEIVED IN THEIR OBJECTIVES AND TERMS, TO TAKE INTO ACCOUNT THEIR EFFECT ON THE CAPITALIZATION OF BUSINESSES.

RECOMMENDATION 4

SUBSIDIES IN THE FORM OF LOW INTEREST LOANS, LOAN GUARANTEES OR GRANTS ALL INVOLVE A COST BY GOVERNMENT AND YUKON SHOULD IMPLEMENT THOSE SUBSIDY PROGRAMS WHICH MEET BUSINESS NEEDS AT THE LOWEST COST. SUBSIDIES IN THE FORM OF DIRECT CONTRIBUTIONS AND FORGIVABLE LOANS ARE THE SIMPLIST FORM OF FINANCING AND SHOULD BE CONSIDERED IN LIEU OF LOANS PROGRAMS

RECOMMENDATION 5

THE YUKON GOVERNMENT SHOULD PLACE MORE RESOURCES TOWARDS INCREASING AWARENESS BY BUSINESS OF EXISTING FINANCIAL CAPITAL SOURCES BY:

A. PREPARING A PUBLICITY CAMPAIGN TO MAKE BUSINESS MORE AWARE OF EXISTING PROGRAMS TO ASSIST BUSINESSES TO OBTAIN EQUITY CAPITAL, SUCH AS THE FLOW THROUGH SHARES, RRSP FOR INVESTORS, VENTURE CAPITAL AND SO ON.

B. IN COOPERATION WITH FBDB, WORK MORE AGGRESSIVELY TO IDENTIFY PROSPECTIVE EQUITY AND JOINT VENTURE PARTNERS AND TO WORK TO ASSIST THE PARTIES TO SUCCESSFULLY JOIN FORCES.

RECOMMENDATION 6

BOTH LEVELS OF GOVERNMENT SHOULD ENCOURAGE FIRMS TO TAKE LONGER TERM DEBT POSITIONS RATHER THAN SHORT TERM DEBT POSITIONS WHENEVER APPROPRIATE AND DESIGN ITS PROGRAMMING TO REFLECT THIS APPROACH.

RECOMMENDATION 7

THE YUKON GOVERNMENT'S VENTURE CAPITAL PROGRAM IS SIMPLE AND STRAIGHTFORWARD MEANS FOR ENCOURAGING THE PRIVATE SECTOR TO ASSIST IN THE DEVELOPMENT OF YUKON'S BUSINESS COMMUNITY AND SHOULD BE IMPLEMENTED AS SOON AS POSSIBLE.

RECOMMENDATION 8

THE YUKON GOVERNMENT SHOULD ENSURE THAT ITS FINANCIAL ASSISTANCE PROGRAMS HAVE SPECIAL PROVISION FOR ENCOURAGING ALL THE VARIOUS TYPES OF COMMUNITY ENTERPRISES TO GROW AND DEVELOP. YUKON SHOULD ALSO CONSIDER PROVIDING CORE FUNDING TO COMMUNITY ENTERPRISES THROUGH AN EXPANSION OF THEIR POLICY OF SUPPORT TO ECONOMIC DEVELOPMENT GROUPS. THE YUKON VENTURE CAPITAL PROGRAM SHOULD ALSO INCLUDE SPECIFIC PROVISIONS FOR ENCOURAGING COMMUNITIES TO USE THE PROGRAM FOR DEVELOPMENT PURPOSES.

RECOMMENDATION 9

THE YUKON GOVERNMENT SHOULD ATTEMPT TO DESIGN ITS FINANCIAL ASSISTANCE PROGRAMMING TO REDUCE CASHFLOW PROBLEMS IN THE FIRST FEW YEARS OF OPERATION. THE USE OF FORGIVABLE LOANS, INTEREST REBATES OR LOAN DEFERRALS CAN ALL BE USED FOR THIS PURPOSE.

6.3 Operating Difficulties

RECOMMENDATION 10

TO SIMPLIFY THE PROGRAM DELIVERY, THE YUKON GOVERNMENT SHOULD IMPLEMENT ANY LOAN GUARANTEE PROGRAM FOR LOANS, WORKING CAPITAL OR INVENTORY FINANCING AS AN EXTENSION TO THE SMALL BUSINESS LOANS ACT. THE GOVERNMENT SHOULD PASS THE NECESSARY

LEGISLATION OR REGULATIONS TO UTILIZE THE SBLA ADMINISTRATIVE PROCESSES AND HAVE THE BANKS PASS ON TO YUKON THOSE LOAN GUARANTEES COVERED BY YUKON LEGISLATION AND TO THE FEDERAL GOVERNMENT THOSE GUARANTEES COVERED BY THE FEDERAL LEGISLATION.

RECOMMENDATION 11

THE YUKON GOVERNMENT SHOULD INCREASE ITS FINANCIAL COMMITMENT TO ALLEVIATE THE OTHER MAJOR PROBLEMS FACED BY BUSINESS INCLUDING ENTREPRENEURIAL SKILL DEVELOPMENT, MANAGEMENT TRAINING AND EDUCATION, MARKET DEVELOPMENT, TRADE INITIATIVES, AND PROPOSAL DEVELOPMENT. BUSINESS ADVISORY SERVICES, MARKET DEVELOPMENT AND TRADE INITIATIVES ARE INADEQUATE IN YUKON IN RELATION TO THE NEED AND TO THE FUNDING PROVIDED FOR FINANCIAL CAPITAL.

6.4 Government Programming as a Constraint to Access

RECOMMENDATION 12

THE COMMUNITY DEVELOPMENT PLANNING AND RENEWABLE RESOURCES COMMERCIAL DEVELOPMENT PROGRAMS SHOULD BE REPLACED WITH A SPECIAL ECONOMIC DEVELOPMENT CONTINGUENCY FUND WHICH CAN BE ACCESSED BY THE EXISTING DECISIONMAKING COMMITTEES OF THE YUKON OR CANADA/YUKON PROGRAMS FOR PROVIDING SUPPLEMENTAL ASSISTANCE IN SUPPORT PROJECTS.

RECOMMENDATION 13

THE YUKON GOVERNMENT SHOULD DELIVER ITS LOAN PROGRAM THROUGH A CONTRACT WITH ESTABLISHED INSTITUTIONS SUCH AS THE CHARTERED BANKS, TRUST COMPANIES OR THE FEDERAL BUSINESS DEVELOPMENT BANK OR USE THE FUNDS FROM THIS PROGRAM TO INSTITUTE INDIRECT LOAN ASSISTANCE PRACTICES SUCH AS THE SASKATCHEWAN GOVERNMENT'S FIXED RATE FINANCING PROGRAM IN WHICH GOVERNMENT EXTENDS LOANS AT FIXED RATES TO THE BANKS WHO IN TURN LOAN THESE FUNDS TO SPECIFIED TYPES OF ENTREPRENEURS AND BUSINESSES IN SPECIFIED REGIONS OR SECTORS AT FIXED RATES.

RECOMMENDATION 14

GOVERNMENT SHOULD DIRECT MORE OF ITS PROGRAMMING TO SUPPORT PRIVATE AND COMMUNITY INITIATIVES AND THROUGH THE GREATER USE OF PRIVATE INSTITUTIONS. DANA NYE AND OTHER VENTURE CAPITAL CORPORATIONS SHOULD BE ENCOURAGED THROUGH THE VENTURE CAPITAL PROGRAM AND OTHER INITIATIVES.

RECOMMENDATION 15

THE YUKON GOVERNMENT, FEDERAL DEPARTMENTS OF DRIE AND DIAND, THE CYI AND THE PRIVATE SECTOR SHOULD WORK COOPERATIVELY TO DETERMINE WAYS AND MEANS TO STREAMLINE THE ADMINSTRATIVE

PROCEDURES OF THE VARIOUS BUSINESS PROGRAMS IN THE YUKON. THIS PROCESS WOULD COVER ALL ASPECTS OF PROGRAM DELIVERY INCLUDING APPLICATIONS, ADMINISTRATIVE PROCEDURES, DECISIONMAKING PROCESSES, CRITERIA, AND GUIDELINES, WITH A VIEW TO REDUCING THE PAPER BURDEN ON THE APPLICANT FOR FINANCIAL ASSISTANCE.

RECOMMENDATION 16

THE YUKON GOVERNMENT SHOULD NEGOTIATE A MEMORANDUM OF UNDERSTANDING WITH THE FEDERAL GOVERNMENT TO CREATE A SINGLE MANAGEMENT COMMITTEE FOR DEALING SPECIFICALLY WITH THE FINANCIAL ASSISTANCE PORTIONS OF ALL THE ECONOMIC DEVELOPMENT AGREEMENT SUBSIDIARY AGREEMENTS. THE SINGLE MANAGEMENT COMMITTEE WOULD CONSIST OF ALL THOSE FEDERAL AND TERRITORIAL DEPARTMENTS WHO ARE RESPONSIBLE FOR PROVIDING DIRECT FINANCIAL ASSISTANCE, SUBJECT OF COURSE TO THE NEED FOR EQUAL FEDERAL AND TERRITORIAL REPRESENTATION AND TO THE REQUIREMENT FOR THE CYI TO PARTICIPATE ON THE COMMITTEE AS PART OF THE YUKO CONTINGENT.

RECOMMENDATION 17

THE YUKON GOVERNMENT SHOULD FORM A SINGLE BUSINESS ADVISORY COMMITTEE TO PROVIDE FINANCIAL ADVISE AND ASSISTANCE TO THE MANAGEMENT COMMITTEE ESTABLISHED UNDER RECOMMENDATION 16. THIS COMMITTEE WOULD REPLACE THE ONE OR TWO SPECIAL INTEREST GROUPS ACCOMMODATED IN EACH OF THE SUBSIDIARY AGREEMENTS WITH A MORE BROADLY BASED ADVISORY COMMITTEE.

RECOMMENDATION 18

THE YUKON GOVERNMENT INITIATE AN ADVERTISING CAMPAIGN TO MAKE BUSINESS AWARE OF THE OBLIGATIONS UPON IT FOR APPLYING FOR FUNDS AND THE TIME FRAMES FOR OBTAINING A DECISION. BUSINESS MUST BE MADE AWARE OF ITS OBLIGATION TO THE PLANNING PROCESS FOR DEVELOPING A BUSINESS PROSPECT.

RECOMMENDATION 19

THE YUKON GOVERNMENT DELEGATE DECISIONMAKING AUTHORITY FOR SMALLER PROJECTS TO OFFICIALS OR COMMITTEE CHAIRPERSONS, LEAVING DECISIONMAKING COMMITTEES TO AUTHORIZE LARGER PROJECTS. THIS DELEGATION SHOULD OCCUR FOR YUKON AND FEDERAL/YUKON FINANCIAL ASSISTANCE PROGRAMS.

6.5 Financial Institutions

RECOMMENDATION 20

THE YUKON GOVERNMENT SHOULD NOT INITIATE A NEW FINANCIAL INSTITUTION ON ITS OWN AT THE PRESENT TIME, BUT CAN CONSIDER HOLDING HIGH LEVEL MEETINGS WITH OFFICIALS IN THE NWT, NEWFOUNDLAND AND THE PRAIRIE PROVINCES TO DISCUSS THE CONCEPT OF A NORTHERN BANK.

RECOMMENDATION 21

THE YUKON GOVERNMENT SHOULD INITIATE A PUBLIC/PRIVATE BANKING ARRANGEMENT USING THE YUKON TERRITORIAL AGENTS, COMBINED WITH PRIVATE SECTOR AGENTS IN COMMUNITIES WITHOUT A TERRITORIAL AGENT. THIS BANKING ARRANGEMENT WOULD PROVIDE BASIC BANKING SERVICES INCLUDING DEPOSIT TAKING, CHEQUE CASHING, TRANSFERS AND BILL PAYING. PUBLIC OFFICIALS WOULD BE COMPENSATED FOR INCREASED RESPONSIBILITY AND PRIVATE SECTOR AGENTS WOULD RECEIVE A COMMISSION BASED UPON BANKING ACTIVITY IN THE COMMUNITY. OTHER TERRITORIAL AGENCY SERVICES COULD ALSO BE PROVIDED, THEREBY REDUCING THE COSTS OF PROVIDING BANKING SERVICES.

RECOMMENDATION 22

THE YUKON GOVERNMENT CONTINUE TO USE ITS BUSINESS DEVELOPMENT OFFICERS IN RURAL COMMUNITIES TO DELIVER COMMERCIAL FINANCIAL ASSISTANCE AND GIVE CONSIDERATION TO EXPANDING THOSE SERVICES TO OTHER COMMUNITIES.

6.6 Financial Assistance Alternatives

RECOMMENDATION 23

ALL FORMS OF GOVERNMENT FINANCING IN YUKON INVOLVE SOME FORM OF SUBSIDY AND BOTH LEVELS OF GOVERNMENT SHOULD USE THOSE FORMS OF ASSISTANCE THAT DIRECTLY ADDRESS THE PROBLEMS OF BUSINESS NAMELY INSUFFICIENT EQUITY, TOO MUCH SHORT TERM DEBT, CASH FLOW PROBLEMS, AND SO ON.

THE PREFERRED TYPES OF ASSISTANCE ARE FORGIVABLE LOANS WHICH ALLOW A PERSON TO HAVE A PORTION OF THEIR LOAN OBLIGATION FORGIVEN IF THEY MEET CERTAIN CONDITIONS; INTEREST REBATES WHICH PROVIDE FINANCIAL ASSISTANCE TO COVER THE INTEREST CHARGES OF BUSINESS DURING THE FIRST FEW YEARS OF LONG TERM FINANCING AND DEFERRED LOAN PROGRAMS WHICH ALLOW A PERSON TO REPAY AFTER A PERIOD OF TIME RATHER THAN COMMENCING REPAYMENT IMMEDIATELY.

RECOMMENDATION 24

GRANT PROGRAMS SHOULD NOT BE DISCOURAGED SIMPLY BECAUSE THEY ARE A VISIBLE FORM OF SUBSIDY. RATHER GOVERNMENT SHOULD MAKE THE PUBLIC AWARE OF THE COSTS ASSOCIATED WITH EACH FORM OF SUBSIDY WHETHER IT COMES IN THE FORM OF A LOW INTEREST LOAN, A PREFERRED RATE LOAN GUARANTEE OR INFRASTRUCTURE ASSISTANCE.

RECOMMENDATION 25

THAT GOVERNMENT GIVE SERIOUS CONSIDERATION TO INSTITUTING A FINANCIAL ASSISTANCE PACKAGE TO ENSURE THAT PRIVATE BUSINESSES IN RURAL COMMUNITIES CAN OBTAIN LAND FOR DEVELOPMENT AT REASONABLE COSTS, CAN OBTAIN WATER, SEWER AND

POWER AND OTHER INFRASTRUCTURE INSTALLATIONS AT THE SAME COSTS AS WHITEHORSE BUSINESSES AND CAN PROVIDE MUCH NEEDED BUSINESS LEASE SPACE IN RURAL COMMUNITIES.

RECOMMENDATION 26

TAX INCENTIVES SHOULD NOT BE USED AS THEY ARE DETERIMENTAL TO THE YUKON GOVERNMENTS FINANCIAL SYSTEM AND ARE LIKELY TO BE SERIOUSLY CHANGED AS PART OF THE FEDERAL TAX REFORM SYSTEM.

RECOMMENDATION 27

WHENEVER NEW PROGRAMS ARE BEING CONSIDERED OR EXISTING PROGRAMS BEING REEXAMINED, GOVERNMENT SHOULD ATTEMPT TO DESIGN THE PROGRAMMING ENCOURAGE BUSINESS DEVELOPMENT FROM ALL SECTORS OF THE ECONOMY AND FROM ALL REGIONS. IF CERTAIN SECTORS OR GROUPS NEED EXTRA FINANCIAL ASSISTANCE THEN PROVIDE THAT EXTRA INCENTIVE. DO NOT REATTEMPT TO ESTABLISH THE SERIES OF PARRALLEL AGREEMENTS PRESENTLY SIGNED UNDER THE EDA PROCESS IF AT ALL POSSIBLE.

6.6 Conclusion

The above material provides an analysis of the Financial Resources problems, and opportunities in Yukon and lays out a series of suggested recommendations to assist in the further development of the financial resources capability of the territory.

The final strategy will not come without the input of those who will read and debate this report and it is hoped that this report will provide constructive comments to assist in that debate.

GOOD LUCK. THE FUTURE OF YUKON'S DEVELOPMENT DEPENDS UPON THE QUALITY OF YOUR DEBATE.

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INDIRECT FINANCIAL ASSISTANCE

Lists programs whose primary objective is not directly related to assisting business but whose financial assistance can positively impact business development.

1. Business Immigrants
2. Canada\Yukon Job Development Program
3. Job Entry
4. Indian Community Human Resources Strategies Program
5. Yukon Employment Incentive Program
6. Yukon Employment and Training Program
7. Canada\Yukon Summer Program: Challenge '87
8. Skill Shortages
9. Skill Investment Program
10. Canada\Yukon Small Business Training Program
11. On-the-Job Training Program
12. Innovations Program
13. Canada Mobility Program
14. Work Sharing Programs
15. Labour Adjustment Benefits Program
16. Outreach (Yukon Projects)
17. Community Futures
18. Promotions Projects Program
19. Industrial Research Assistance Program
20. Technology Impact Research Fund
21. Canada\Yukon Mineral Resources Subsidiary Agreement
22. Northern Resource Roads Program
23. Regional Resource Roads Program
24. Remote Community Demonstration Program-Phase II
25. Enerdemo-Canada
26. Solar Energy Development Program
27. Yukon Energy Alternative Program
28. Buildings Energy Technology Transfer Program
29. Saving Energy Action Loan Program
30. Yukon Tourism Special Events Program
31. Historic Properties Assistance Grants
32. Tourist Wharf Program
33. National Harbours Program
34. Streetscape Development Program
35. Marina Policy Assistance Program
36. Research and Development Program

ADVISORY AND INFORMATION SERVICES

Programs that provide advise, information and other nonfinancial services to business.

1. Federal Business Development Bank
2. Business Opportunities Sourcing System
3. Business Development Office
4. Small Business Secretariat "Hotline"
5. Dana Naye Ventures
6. Canadian Native Program
7. Canadian Council for Native Business

- 8.Industrial Research Assistance Program
- 9.Canadian Industrial Innovation Centre
- 10.Industrial Relations Information Service
- 11.Labour Canada Library Services
- 12.Occupational Health and Safety Program
- 13.Canadian Centre for Occupational Health and Safety
- 14.Federal Mediation and Conciliation service
- 15.National Job Bank
- 16.Industrial Adjustment Service
- 17.Manpower Consultative Services
- 18.Canada Centre for Mineral and Energy Technology
- 19.Mining Information Programs
- 20.Geological Survey of Canada
- 21.National Mineral Inventory\Consultative Service
- 22.Trade Commissioner Service
- 23.Export Information Service
- 24.Statistics Canada Advisory Service
- 25.Canada Service Bureau
- 26.Yukon Business Development Office

Appendix B

BUSINESS FINANCIAL ASSISTANCE PROGRAMS IN YUKON

DIRECT FINANCIAL ASSISTANCE

Lists of all programs whose principle objective is to provide some form of direct financial assistance to support the planning, startup or operation of a business.

1. Industrial and Regional Development Program
2. Federal Business Development Bank
3. Small Business Loans Act
4. Yukon Loan Assistance Program
5. Trade Show Participation Assistance Program
6. Native Economic Development Program
7. Dena Nye Ventures
8. Canada/Yukon Special Agriculture and Rural Development Agreement
9. DIAND Economic Development Program
10. Program for Export Market Development
11. Cost Recoverable Technical Assistance Program
12. Export Development Corporation
13. Prospectors Assistance Program
14. Exploration Incentives Program
15. Commercial Power Rate Relief Program
16. Canada\Yukon Renewable Resources Subsidiary Agreement
17. Fisheries Improvement Loans
18. New Crop Development Fund
19. Farm Credit Loans
20. Farm Syndicates Loans
21. Shared Risk Mortgage
22. Commodity Based Loans
23. Farm Improvement Loans
24. Feed Freight Assistance Program
25. Canada\Yukon Tourism Subsidiary Agreement
26. Venture Capital Program
27. Opportunity Identification Program
28. Canada Commercial Corporation
29. Renewable Resources Community Development Program
30. Machinery Program
31. Incentives for Statutory Retirement Plans to Invest in Small Business
32. Small Business Development Bonds
33. Fuel Tax Exemption
34. Industrial Cooperation Program
35. Flow through Share Purchase Program