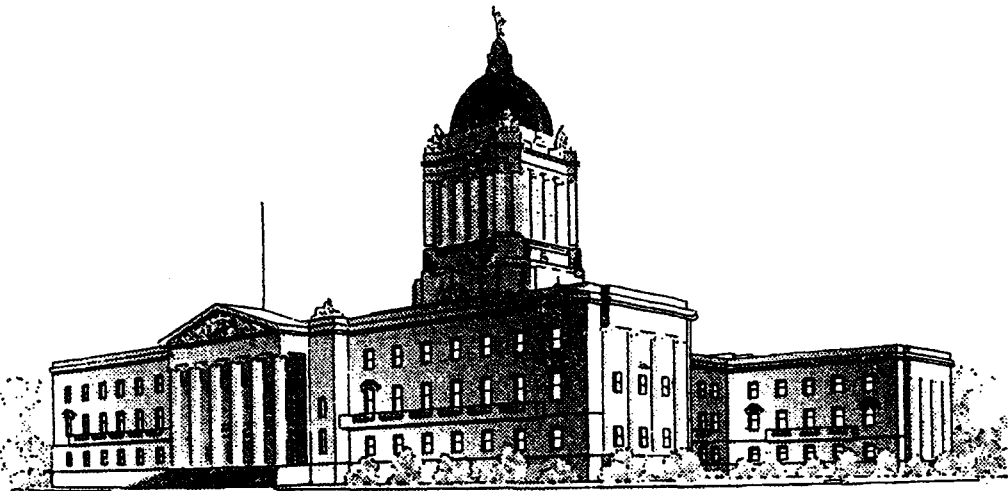




Fifth Session - Thirty-Fifth Legislature
of the
Legislative Assembly of Manitoba

Standing Committee
on
Economic Development

Chairperson
Mr. Jack Reimer
Constituency of Niakwa



Vol. XLIII No. 2 - 10 a.m., Thursday, May 26, 1994

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fifth Legislature

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
ASHTON, Steve	Thompson	NDP
BARRETT, Becky	Wellington	NDP
CARSTAIRS, Sharon	River Heights	Liberal
CERILLI, Marianne	Radisson	NDP
CHOMIAK, Dave	Kildonan	NDP
CUMMINGS, Glen, Hon.	Ste. Rose	PC
DACQUAY, Louise	Seine River	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DEWAR, Gregory	Selkirk	NDP
DOER, Gary	Concordia	NDP
DOWNEY, James, Hon.	Arthur-Virden	PC
DRIEDGER, Albert, Hon.	Steinbach	PC
DUCHARME, Gerry, Hon.	Riel	PC
EDWARDS, Paul	St. James	Liberal
ENNS, Harry, Hon.	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Clif	Interlake	NDP
EVANS, Leonard S.	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen, Hon.	Springfield	PC
FRIESEN, Jean	Wolseley	NDP
GAUDRY, Neil	St. Boniface	Liberal
GILLESHAMMER, Harold, Hon.	Minnedosa	PC
GRAY, Avis	Crescentwood	Liberal
HELWER, Edward R.	Gimli	PC
HICKES, George	Point Douglas	NDP
KOWALSKI, Gary	The Maples	Liberal
LAMOUREUX, Kevin	Inkster	Liberal
LATHLIN, Oscar	The Pas	NDP
LAURENDEAU, Marcel	St. Norbert	PC
MACKINTOSH, Gord	St. Johns	NDP
MALOWAY, Jim	Elmwood	NDP
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	NDP
McALPINE, Gerry	Sturgeon Creek	PC
McCORMICK, Norma	Osborne	Liberal
McCRAE, James, Hon.	Brandon West	PC
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MITCHELSON, Bonnie, Hon.	River East	PC
ORCHARD, Donald, Hon.	Pembina	PC
PALLISTER, Brian	Portage la Prairie	PC
PENNER, Jack	Emerson	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren, Hon.	Lac du Bonnet	PC
REID, Daryl	Transcona	NDP
REIMER, Jack	Niakwa	PC
RENDER, Shirley	St. Vital	PC
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ROSE, Bob	Turtle Mountain	PC
SANTOS, Conrad	Broadway	NDP
SHELLENBERG, Harry	Rossmere	NDP
STEFANSON, Eric, Hon.	Kirkfield Park	PC
STORIE, Jerry	Flin Flon	NDP
SVEINSON, Ben	La Verendrye	PC
VODREY, Rosemary, Hon.	Fort Garry	PC
WOWCHUK, Rosann	Swan River	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Thursday, May 26, 1994

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRPERSON — Mr. Jack Reimer (Niakwa)

ATTENDANCE - 11 — QUORUM - 6

Members of the Committee present:

Hon. Mr. Praznik

Mr. Ashton, Mrs. Carstairs, Messrs. Helwer, Penner, Reimer, Mrs. Render, Messrs. Rose, Storie, Sveinson, Ms. Wowchuk

APPEARING:

Gerald Offet, General Manager and Chief Executive Officer, Communities Economic Development Fund

Gordon Wakeling, Manager of Finance, Communities Economic Development Fund

MATTERS UNDER DISCUSSION:

Annual Report of Communities Economic Development Fund for the year ended March 31, 1993.

* * *

Mr. Chairperson: Will the Committee on Economic Development please come to order.

We have before us the following report to be considered: the Annual Report of the Communities Economic Development Fund for the year ending March 31, 1993. For any member who does not have a copy of the report, there are copies in front of me, and the Clerk is passing out extra copies.

I would like to invite the minister responsible, the honourable Minister of Labour, to make his opening statement and to introduce the staff present this morning.

Hon. Darren Praznik (Minister charged with the administration of The Communities

Economic Development Fund Act): Mr. Chairperson, I am very pleased to present today to this committee the 22nd Annual Report of the Communities Economic Development Fund for the year ending March 31, 1993.

Officials from CEDF in attendance include Mr. Harold Westdal, Chairperson of the Board of Directors; Mr. Gerald Offet, General Manager and Chief Executive Officer; and Mr. Gordon Wakeling, Manager of Finance. They are obviously here today to answer the questions that the committee may have with respect to the annual report and the operations of the fund over the previous year.

This report covers the period from April 1, 1992, to March 31, 1993, a time of obviously troubled economic conditions because of the downturn in the resource sector that hit our northern region particularly hard.

Notwithstanding these factors, 1992-93 was a record-setting year for CEDF. Business loan approvals totalled \$5.4 million, the highest in the fund's 22-year history. Loans were approved for a diverse group of northern entrepreneurs with the largest portion directed to resource industries. New leading activity created or maintained 334 jobs in northern Manitoba. At year-end the portfolio stood at \$6,238,515 with 115 clients.

As an alternative lender, CEDF only considers proposals that have failed to attract support from commercial lenders, with the result that many of its loans are, of course, high risk. Often, however, businesses in northern Manitoba cannot attract capital from banks and credit unions because of their location or because of lending policies unrelated to risk. Rather than serving as a lender of last resorts, CEDF is often the lender of only resort.

An important part of CEDF's role in the provision is aftercare to its borrowers. The fund recognizes that many of its clients are in the process of developing their business skills while they operate their new venture. Assisting clients with the paperwork that comes with going into business for themselves is just part of this ongoing process. The result is fewer business failures and lower loan losses for CEDF and, ultimately, more successful businesses and jobs created in northern Manitoba.

On April 1, 1992, CEDF became responsible for the delivery of the Fisherman's Loan Program under Part III of The Fisheries Act. This program has assisted commercial fishermen since 1969 in the purchase and repair of fixtures and equipment. There are over 2,400 commercial fishermen in Manitoba and over 1,300 accessing the Fisherman's Loan Program for capital requirements.

In all of its activities, CEDF, its board, management and staff strive to be efficient and professional. From its head office in Thompson and its branch operations in The Pas, Swan River, Gimli and Winnipeg, all staff work to serve their clients and the province in an effort to expand and strengthen the northern economy at an acceptable cost to the taxpayers of the province of Manitoba.

We are prepared to accept questions from the committee at this time.

Mr. Chairperson: I thank the honourable minister for his opening comments.

Does the member for Flin Flon, Mr. Storie, have any opening comments?

Mr. Jerry Storie (Flin Flon): Mr. Chairperson, I appreciate the minister's enthusiasm when it comes to the total value of loans approved by CEDF. I do note that in terms of only a few short years ago, the number of applications that are being approved are somewhat smaller in number than they used to be.

I am wondering, maybe, as a first step, if the minister or the chairperson of the board can indicate what percentage of loans are being approved versus applications, and I am wondering

if we can perhaps get a sense of, generally, the business climate in northern Manitoba. Is that what is reflecting the lower numbers of applications? Is there something else going on that is preventing people from applying or perhaps failing to encourage them to apply that resulted in really quite suppressed numbers compared to what it was five, six, 10 years ago?

Mr. Chairperson: I wonder whether we could just forgo the questioning for a moment. The member for River Heights, the member of the second opposition, Mrs. Carstairs, may have some opening comments.

Mrs. Sharon Carstairs (River Heights): Mr. Chair, essentially, I just wanted to thank the committee for appearing before us today and to indicate that the kind of questions I will be interested in is the relationship between the loans given and the number of jobs created, because there seems to be a significant discrepancy between 1992 and '93 in terms of the dollars equalling the number of jobs created. That is the kind of question I will be looking at. Just to give you some advance warning as well, I would like to know if you have that information, the owners of your numbered companies.

With those very brief opening remarks, I would like to go to questions and answers.

Mr. Chairperson: I will seek some guidance from the committee. Shall we just have a general discussion on the report? Agreed.

Mr. Praznik: Mr. Chair, I gather there are no problems with members of the committee having the chair of the board or the appropriate representatives here answer questions directly. I think that is probably better than going through me as minister, greater ease for members of the committee to get the information they require.

Mr. Chairperson: Standard practice, Mr. Minister.

Mr. Storie: Well, maybe just answer the general question. The member for River Heights has highlighted what I was trying to get at, that although the value of the total loan portfolio has increased significantly, the actual numbers of people receiving loans is not that large.

If you go over the kinds of businesses that are being supported, much of it relates to the devolution of the forestry activities at Repap, that a significant number of these are forest related. Of course, that was not the case in the past, that many of the loans and most of the loans were to support the small entrepreneur in individual communities, generally service sector types of businesses. It is certainly my opinion and certainly from my experience in my communities that there is an underrepresentation of service sector businesses in many of the communities, fairly large communities, 2,000 people, and you have a very underdeveloped service sector.

One of the goals that I thought CEDF should have is making sure that the money is recirculated in those communities, that there are service sector businesses. That was the general question. Why are there so few kind of service sector loan applications, or are there applications but loans not being approved?

* (1010)

Mr. Gerald Offet (General Manager and Chief Executive Officer, Communities Economic Development Fund): The basic assumption has some validity. In the year under review, 1993, there were 68 applications, 36 of which were approved. That gives us an approval rate of about 60 percent, which is the norm for development lenders across the country.

In 1992, there were 62 applications and only 19 approvals. This would indicate to me that the underlying weakness of the retail economy throughout the province, but particularly in the North, led to a fewer number of approvals. Unfortunately, for the years prior to that, we do not have the number of applications. For 1988, for example, 70 loans were approved for a total of \$3.5 million. That would indicate that a large number of the loans were smaller loans and were probably for the retail sector.

Mr. Chair, 1993 does represent a period where a significant amount of the capital that was invested was invested in the Repap contractors, just over \$3 million for 11 clients. That is very intensive capital investment. We take significant pride in that, that

we turned long-term Repap employees into entrepreneurs, and they have done exceedingly well. In their first year of operation they had gross earnings of almost \$4 million. They have made that quantum leap from hourly employees to self-employed entrepreneurs quite successfully.

We continue to strive to diversify the various communities' economies. It is a difficult task, however. The existing business communities in a lot of the places in which we operate strongly feel that there is no need for further businesses in their communities, that they service the needs of that community very well, thank you, and they would prefer to keep it operating as a closed shop.

The failure rate in small businesses throughout our landing area is very high. We do a commercial analysis of each application and try to weed out the ones that appear doomed to failure and behave, we believe, in a very prudent manner as regards lending activity.

We do recognize the need for more small loans and the creation of more small businesses. Our recent trends and applications lead us to believe that with the general turn in the economy, and particularly the turn of the economy in the resource sector in northern Manitoba, there will be more opportunities, particularly for service businesses.

Mr. Storie: I am certainly not being critical of CEDF for providing assistance to northerners in terms of the transfer of activity from Repap and their forced operations to private contracting. That was something that we certainly supported. We wanted local people to be able to take advantage of it, and CEDF was one of the few ways that we could reasonably expect those people to access the capital that was necessary. And that is great.

I guess the question is, what supports is CEDF offering to, for example, the retail sector which you suggest has a high failure rate? Well, the retail sector has a high failure rate everywhere. It is not just a problem in northern Manitoba, but I think CEDF in the past has recognized that what is required there is a lot more financial managerial support.

I am wondering whether CEDF has developed any plans over the last couple of years to offer that

kind of support, or is it simply a commercial analysis feasibility study to look at the bottom line and say, this cannot go.

Mr. Offet: Initially what we do when we have an applicant in our office is work with him or her to assist them in developing a business plan. We do not do the business plan for the applicant because it would end up in us assessing our own work. We put an applicant in contact with other agencies of government that will assist in the preparation of business plans, or a professional if the proposal is complicated enough to require one.

As part of the approval process, we often suggest to an applicant that they permit us to assist them in setting up their account books, making application for registration for GST and provincial sales tax and get things set up on a proper basis right from the outset.

We have also, in conjunction with private chartered accountancy firms, conducted seminars for our clients where, at no charge to our clients, they can get professional assistance in dealing with tax matters and accounting matters.

A significant part of our account management is providing ongoing business advice to our clients and trying to assist them, particularly in the first year or so of operations when the greatest risk of failure exists. This is an ongoing thing, and we think it is translated into more successful businesses and fewer written-off accounts on our part.

Mr. Storie: How many people do you have involved in account management, for example?

Mr. Offet: On the business loans side, we have five people involved in the management of the accounts.

Mr. Storie: In general, would these accounts in the first year—you referenced, you know, kind of trying to stay on top of it in the first year. How often would these people be in touch in a supportive way rather than just a phone call?

Mr. Offet: There would be personal calls at least five times a year and a minimum of monthly contact with the client.

Mr. Storie: You mentioned that the business portfolio, the Fisherman's Loan Program, is this dealt with using the same staff?

Mr. Offet: No, we have a different staff complement, largely people who came over from MACC when we took over the program in April 1992.

Mr. Storie: So when you were talking about five staff, they would have dealt with the 60-some applications initially, would have helped in the screening of those, made recommendations to the board, as well as continued on providing regular support to the other clients.

Mr. Offet: That is correct, managing the 130-odd accounts that we have outstanding at any given time.

Mr. Storie: At one time—through you, Mr. Chairperson—the CEDF held outreach meetings where it actually went and solicited, looked for, entrepreneurs in the outlying communities. I am wondering if CEDF has been involved in any kind of outreach meetings, where it has sort of outlined its services and invited prospective entrepreneurs to join it in communities like South Indian Lake or Brochet or any of the smaller communities.

Mr. Offet: Since I took over the management of the fund in August of last year, I have made 10 community visits and talked to chambers of commerce, town and city councils, economic development organizations, and it is an ongoing thing. Some of the smaller communities that you have mentioned are on the list to visit this summer.

Mr. Storie: Just a general question about the policy of the board: Does the board generally review individual business applications in terms of other competing interests in a community?

Mr. Offet: A portion of our loan submission deals with markets and local community conditions, and certainly a large factor in determining whether there is a market for the products or the service that an entrepreneur intends to provide depends on what competing interests there are in the community or very near the community. So we carefully consider how large the market is and how much of that market is presently being taken up by

existing business, but competition for competition's sake does not really make any sense.

* (1020)

Mr. Storie: But there is nothing that would preclude CEDF from providing a loan if it felt that the market was sufficient. The existence of a competing business that already had a CEDF loan would not disallow the provision of a loan to some other entrepreneur in the same field.

Mr. Offet: Not in itself. The fact that we had another loan in a similar or identical business probably gives us a better insight as to the nature and extent of the market.

Mr. Storie: How much weight is given to an applicant who is already a successful business person, somebody who already has a track record, versus someone who is relatively new or a first-time small-business owner?

Mr. Offet: That goes primarily to the risk element or the chances of success, and experience shows that the seasoned business person who has already been up and down the roller coaster a few times probably has a better chance of succeeding than the first-time entrepreneur who is inevitably going to make some mistakes. The background of an applicant is factored into the analysis of risk and plays a fairly significant part.

Mr. Storie: If somebody had applied for support from CDF and had been refused, viewed themselves and I think others in the community viewed them as successful business people, what would you recommend that they do if they had been refused once from CDF already?

Mr. Offet: When we refuse somebody, we provide them with the reasons for our refusal—it is not just I am sorry I cannot help you; it is, I am sorry we are not in a position to help you at this time because of—and then we detail the reasons behind our decision. If it is a case of us not being convinced that there is a market for the product or service, our recommendation to people is if you as the applicant are convinced that this has merit and that there is a market for it, do some more research and come back to us. If not, we are quite prepared to recommend alternate sources of funding, like

Community Futures or even different ways of approaching conventional sources.

Mr. Storie: Does CDF still work very closely with the Federal Business Development Bank? Is there a formal working relationship between those two groups?

Mr. Offet: I would describe it more as an informal working relationship in that every time the FBDB loans officer responsible for a given area that overlaps with us is in our communities, we arrange to sit down with them and trade information and talk about trends and this sort of thing. Our experience over the last year has been that FBDB is not really active nor does it seem to show a desire to be very active in the northern communities.

Mr. Storie: I think that is a sentiment that is shared pretty widely in northern Manitoba right now, and whether we like it or not, I guess, CDF seems to be sometimes not only the financial lender of last resort, but first resort. There is simply not much interest in business lending in northern Manitoba from the commercials.

I guess the other question I had on the report deals with the losses, the provision for doubtful accounts. It seems to me fairly large this year and I am wondering how many doubtful accounts are we talking about and perhaps we could have some description of what happened.

Mr. Offet: In connection with doubtful accounts or provisions, it is important that we provide some explanation as to how the amounts are arrived at. First of all, there are specific allowances made with respect to accounts that are in arrears. Those allowances are based on an analysis of the security value that we hold and we try to make a provision to reduce the balance of the account to the realizable security value.

In addition to that we, like most other development lenders in the country, take a nonspecific or a general provision against all of the other accounts equal to 5 percent of the accounts. So the result is that if our outstanding loan balance is high, it does not matter what the arrears rate is, that our allowances increase by 5 percent. In the year under review about \$100,000 of that

allowance figure is attributable to the increase in portfolio size. There is an extra two million dollars year over year comparison, and 5 percent of that is about \$100,000.

With respect to the specific allowances, there are probably three accounts that make up the difference and are noteworthy because they are exceptional.

Mr. Storie: Now, these are accounts that have gone past being doubtful.

Mr. Offet: Yes, they are. They are accounts where we recognize that in all likelihood we are going to sustain a loss, and prudent financial management dictates that when you are faced with this you make a provision sooner rather than later.

Mr. Storie: Mr. Chairperson, could we ask the general manager for sort of an overview of the three accounts that are now going to be under the loss column?

Mr. Gordon Wakeling (Manager of Finance, Communities Economic Development Fund): We had one forestry account where the operator was not successful. This had been a prior loan advanced, I believe, in 1989. The community was Thompson and Wabowden ultimately. We took a loss in a meat-processing retail meat operation in Thompson where we were not able to realize sufficiently on the assets on disposal.

Mr. Storie: What did that loan provide?

* (1030)

Mr. Wakeling: That loan was provided over a two-year period from 1991 to 1993.

If you will just excuse me as I dig through my papers here.

We took also an additional loss in the Interlake on an auto body service operation. We increased our allowance on that. Those three loans in combination account for approximately 60 percent of the allowance other than the overall nonspecific increase.

Mr. Storie: And the rest of this would be accounts in arrears, but there has been no sort of final decision to wind it up?

Mr. Offet: That is correct. We attempt to the greatest extent possible to keep our clients in business. If we get their co-operation and can sense that things will turn around we will stay in there with them significantly longer than a bank or a credit union will. So there are accounts where maybe our security has diminished in value and we have two or three months in accumulated arrears and we are still working with the client, and prudence dictates that you should reserve the account down to its realizable value.

Mr. Storie: What is the current policy on, I guess, personal equity in these kinds of ventures? Is there a fixed policy, and what sort of lien do you put on other personal property that is brought into this?

Mr. Offet: The policy is that we want to see investment, personal investment on the part of the entrepreneur, but we are not going to restrict it to a certain percentage. We like to see equity from personal sources in an amount of at least 20 percent, but we recognize that there are cases where that is not available and that the business in question can service a higher debt load than would normally be the case.

The key thing in small business development is commitment on the part of the entrepreneur, and the most significant way an entrepreneur can demonstrate commitment is by investment of his personal assets or the pledging of his personal assets as security for the business venture. That decreases the chances of him or her walking away from the business at the first sign of trouble.

Mr. Storie: Has there been an incident in the last three, four years where a business person put up equity, for example, in a home or some other property and CDF has collected on it?

Mr. Offet: The answer to that is yes.

Mr. Storie: So once the commitment is made, CDF pursues their interest as far as is legally possible.

Mr. Offet: Yes, we do.

Mrs. Carstairs: Mr. Chair, I would like to go back to basically pages 8 and 9 of the report. First of all, there are a number of numbered companies, two in particular, who each received two loans: 2885868,

who received loans totalling some \$452,000, and 2921511, again two loans, but much smaller total of \$83,000. I assume you have the owner's names of those particular companies.

Mr. Wakeling: If I could be permitted a few minutes, I could actually retrieve them for you.

Mrs. Carstairs: Essentially what I want to know is: Are they also individuals who have been given other loans?

Mr. Offet: The answer to that is no, and there is certainly no ulterior motive in the use of the numbered company. That is simply the cheapest way that entrepreneurs can incorporate, and particularly in the case of these forestry companies there is no trade advantage for them to have names.

Mrs. Carstairs: I have a numbered company myself, so I do know about that, but I was interested to know whether in fact these people were also owners of other companies on your loan list. I am pleased to see that they are in fact not, but I would like to know why one of them was given two separate loans in the same year.

Mr. Offet: That would have been for two pieces of equipment. Maybe I can just turn it over to my colleague.

Mr. Wakeling: The client in question entered one business related to Repap and subsequently was awarded a different contract, sold out from the prior business and was refinancing a new one.

Mrs. Carstairs: Can you explain why the different rates of interest? You seem to have a low of 7.5 up to a maximum of 10.5.

Mr. Wakeling: Our interest rates are set on a monthly basis related to our cost of money from Finance.

Mrs. Carstairs: All right, and I am assuming that the term is months.

Mr. Wakeling: Correct.

Mrs. Carstairs: It seems strange to have a loan for a month and yet there are three that have loans for one month. What is the explanation for that?

Mr. Wakeling: These are generally bridge financing arrangements such as with aboriginal economic development programs.

Mrs. Carstairs: In terms of the forest-related businesses, I did a quick count and I could be out by one or two, but it seems that 20 out of 36 of the companies are forestry related, which is almost 60 percent of the loan portfolio for this particular year. I noted in your earlier answer there seem to be some problems in the service sector side of the loan program. But I also noticed that in the number of jobs that are being produced, for example, if you just compare '92 with '93, you have 102 jobs out of a \$1.1 million portfolio. This year you have 120 jobs out of a \$5.4 million portfolio. What is the relationship in the evaluation process of the number of jobs that will be produced as to your willingness to look favourably at a loan?

Mr. Offet: The jobs created do form part of our analysis, but the key analysis relates to commercial viability and the value of the security that is being offered. I would suggest that the year under review is an anomaly, because it featured those 20 forest industry loans that were very capital intensive and in most cases were one person businesses. It was an owner-operator of a machine or a truck or something of this nature. This is not typical of an average year. It happened that the opportunities existed in the forest industry because of the changes in harvesting procedures that Repap adopted, and it was a period where there were very few entrepreneurs willing to venture into a very uncertain retail market. We see that changing significantly this fiscal period.

Mrs. Carstairs: I certainly would not want you to change your criteria. I want to make sure that you get paid back if that is at all possible, but obviously I also think that job creation is a significant aspect of this particular development fund, and obviously, the number of jobs is important to all of us in terms of creation.

One other area that concerned me, and this is on the Schedule of Operating Expenses on the final page of your annual report, there seems to be a 32 percent increase in salaries and employee benefits. Could I have an explanation for that?

Mr. Wakeling: We actually had a similar increase in staff with the combination of the two programs, MACC's fish loan staff joining CDF.

Mrs. Carstairs: Can you also explain the other anomaly in that particular Schedule of Operating Expenses which is a decrease of 130 percent in the pension expense?

Mr. Wakeling: Yes, I can. An accrual was made to the 1992 year-end related to future pension liability which was an adjustment period due to an actuarial report that we had received, and that expense was not required in 1993.

Mrs. Carstairs: That is the extent of my questions, Mr. Chairperson.

* (1040)

Ms. Rosann Wowchuk (Swan River): I have a couple of questions that I would like, and several of them have been covered already, but I would like to just ask about the decentralization and the expansion of offices, and in particular I have some questions about the Swan River office and the success of that office.

I look at the loans here, and none of the loans are in the Swan River area. I wonder whether you can give me some detail as to the activity in that office or what is happening and how you analyze it, whether or not you consider it to be a successful venture as far as CEDF, as this program.

Mr. Offet: I guess there are two answers to that question. The first answer is that the Swan River office serves the northwest corridor of the province, and we do have a number of loans. In fact, about a third of our portfolio is in that corridor going north and east to Camperville and up through The Pas and Flin Flon. We do, however, recognize that our clients are not in any great abundance in the Swan River area.

You may have noticed that the chairman and I were at the loggers and haulers gathering in Swan River a few weeks ago, and we had a booth at the trade show in an effort to increase the awareness of the people in the Swan River area to our services that are available.

We see it as a marketing problem. We do not see anything wrong with Swan River. In fact, we think that in the next year or two, it is going to lead to a lot of activity in Swan River and we intend to participate.

Ms. Wowchuk: I appreciate that answer. I did meet you and members of the staff at the Swan River trade show and I was very pleased to see you, because I also feel that there is going to be a tremendous amount of activity in the area and a need for financial assistance for new operators to get started. So I was not doubting the activity at the office.

My next question is on outreach, in particular into the outlying communities in the Camperville, Duck Bay area and those areas, whether the officer, who is in Swan River now, does go into those communities to promote the CEDF. Does he spend time in those communities?

Mr. Offet: The answer is, he spends a significant amount of time in those communities. In fact, sometimes I wonder if he is visiting his relatives, because he is related to half of the people in that area. No, we do service that area significantly.

One of the things I will mention about the Swan River area is that Swan River is very fortunate in that the Swan River Credit Union serves the business community very well. We just wish that there were more communities in the North that had commercial lending institutions that performed the kind of service for the business community that is done there.

Ms. Wowchuk: I appreciate those comments about our credit union and they are very true. It is a successful credit union and a credit union that makes a great effort to outreach, and they have done a lot of work to outreach into the aboriginal communities in the last couple of years.

Can you tell me then the number of—I am not quite sure that I understand this process—have there been any loans approved through the Swan River office or are there any—because I look at this list and I see them in the North, and I am not sure where the activity happens. Do the loans go somewhere else or have any clients in the Swan River area, through that office, been approved for loans?

Mr. Wakeling: The approval process for CEDF is that a recommendation is made at the field office level, which is then presented to a management review committee for further recommendation to a

board of directors, so the actual approval process does not occur at the field office.

Ms. Wowchuk: Then how many loans from that area have been put forward for a recommendation and how many have been approved, or have there been any?

Mr. Wakeling: Over this specific period that we are dealing with here?

Ms. Wowchuk: Yes, over this period.

Mr. Wakeling: Again, the information you have in front of you shows you the location of the loans that were approved, on page 8, I believe. As a quick count, I count three loans from that area, but I do not know how that relates to the applications.

Ms. Wowchuk: Would those be the loans then from The Pas region? Are those the ones that you are saying would have come through there?

Mr. Wakeling: I am sorry, I was dealing with your specific area. I was dealing with Rock Ridge, which is, of course, Skownan, and as I went down there, also The Pas.

Ms. Wowchuk: I want to just move on to another area, and that is the area of Fisherman Loans. Would the people of the Swan River area deal with the Swan River officer when they are making application for Fisherman Loans or does that all go through The Pas?

Mr. Wakeling: It all goes through The Pas. As was mentioned earlier, we have separate staff for each program.

Ms. Wowchuk: Does that staff, as well, travel into the communities and make loans available from The Pas or are people required to go The Pas to have their loans dealt with?

Mr. Wakeling: No. We accept mailed-in applications. We also travel regularly in the field. I have been in the field myself in that area twice. My loan officer, I believe, has been there each month for the last six months at least. He too is related to half the community.

Ms. Wowchuk: The fishermen, as you are well aware, are having a difficult season. For the last couple of years the stocks have decreased tremendously and the price has not been that good, so there are many fishermen who are facing

difficulties. The other part of it is that many of their loans were negotiated some time ago and at a fairly high interest rate. Have there been any steps taken with fishermen to rewrite those loans to get them down to a lower interest rate?

* (1050)

Mr. Wakeling: Yes, there have. We have met with the fishermen's agents for the regions across the province, not just for this particular area. We have offered to renegotiate and rewrite all loans to the current lower rates of interest. We publish a newsletter which we mail quarterly with our statements and within our statements we have made the same offer regularly.

Ms. Wowchuk: What percentage, or have a good part of the loans been written down, or are there still a number of them that have not been addressed and are still at a very high interest rate?

Mr. Wakeling: There is approximately 30 percent of the portfolio still on the older fixed rate system.

Ms. Wowchuk: Is that by choice, because they have neglected to come in and have that addressed, or is there some particular reason why some of them may still be held at the higher interest rate?

Mr. Wakeling: There is no reason from CEDF's standpoint. It is by choice. They have not bothered to make the appropriate contact.

Mr. Praznik: If I may just indicate to the member for Swan River, as well, since we both have constituencies with a fishing industry in them, that there were also some issues that were raised with me by fishermen throughout the province and my own constituency regarding the use of the final payment for repayment of loan. There has been some change of policy by the board of directors to accommodate those people who are not in arrears and their payment schedules, so we appreciate this comment by the member for Swan River.

I just want to let her know that that information is regularly channelled. The board is very cognizant of the difficulties in trying what it can to ensure that we are as accommodating as possible to the fishermen of our province no matter where they are located, so I share her concerns and issues

very strongly as an MLA for a fishing constituency.

Ms. Wowchuk: Thank you very much and I appreciate that the minister does share my concerns, because many times he will recognize that there are people, and elected members, who do not recognize that the fishermen have a very difficult life and face great difficulties, particularly in this downturn in the economy that they are facing right now, and any way that we can help them to get through this situation so they can hang on to their equipment and their assets until such time as the industry turns around will only be of benefit to the community.

One of the concerns that has been raised by fishermen with me is when one of the items they need for their industry is nets. Is it accurate that when they take out a loan, they cannot take out loans for nets? Anything they borrow has to have a serial number that can be used for collateral. They cannot borrow money for nets because it is not collateral. If that is true, how do you see fishermen dealing with that particular situation?

Mr. Wakeling: Traditionally, nets have been considered a current operating asset, that they are utilized in that they wear out and are replaced in the normal course of operations and credit for nets has generally been available through Freshwater Fish Marketing and its agents. Our policy has been to provide for the supply of capital assets and the repair of same assets.

Ms. Wowchuk: The other issue that has been raised by fishermen, and I do not know whether you can deal with it, is their cash flow. Because their income is seasonal, they have a difficult time making payments on an ongoing basis. I am sure that you have discussed this with them, but they have asked about the possibility of making arrangements to pay on a seasonal basis. Some of them have said that they have to make payments on a monthly basis. Now, is that true, or can their payments be scheduled so that they can do it on a seasonal basis? How is that addressed?

The other question that they ask about is having their interest frozen during those times when there is no income. I recognize that is something that

cannot be addressed by you, or I do not believe it can, but have you had that discussion about payments, or how does that work for them?

Mr. Wakeling: There seems to be some misunderstanding. Fishermen's payments to their loans are assessed on a check-off percentage of their deliveries of fish during the season, so their payments are seasonal. They only make payments as they deliver fish. We do not set up monthly payments.

Ms. Wowchuk: I appreciate that because then somebody has been giving me some misinformation, because the question they had asked me to raise was the difficulties that they were having with making payments on an ongoing basis. I could not quite understand why that would happen when they had only seasonal income and that would create hardship for them.

Mr. Praznik: If the member for Swan River would allow me just a moment, I think perhaps the issue that is being raised—and I appreciate her difficulty because as MLAs often we get some confusing information brought to us. I had the same kind of issue presented to me at a meeting in my constituency. I think one of the difficulties, after some prodding and trying to figure out what the problem was, had to do with the final payment, where a percentage of that final payment, above what would have been in a normal reschedule of payments, was being deducted. The complaint was, of course, one amortizes it over so many years and that I am in full payment on my interest and my principal and because I have a larger final payment I am losing a portion of that income.

I have noted that the board has re-examined that policy and, my report has been, is only now making that deduction where in fact people are in arrears, to bring them up to date.

So I appreciate the question of the member for Swan River (Ms. Wowchuk). I have had the same issue raised with me, and after sorting it out somewhat, I think that is probably the specific problem that has been presented to her. I had the exact same difficulty when it was presented to me.

Ms. Wowchuk: I thank the minister for that information.

When we were talking about doubtful loans, you had indicated that there were three doubtful loans but that had nothing to do with the fishermen loans. So in that regard, fishermen loans, are there many loans? What is the number of fishermen loans that are out? I believe that information is—how many of those are doubtful or have you had to foreclose on?

Mr. Wakeling: We foreclose on an ongoing basis. The number has not been very significant in relation to the number in the portfolio, which averages about 1,175 to 1,300, depending on the season and the time of year. As the Annual Report shows, an allowance is in place against the portfolio, which is a valuation allowance of approximately 22 percent of the total portfolio value. That is, again, prudent valuation in accordance with GAAP. We have assessed that there is a potential for loss. That loss has not been recognized as actually occurring. This is a nonspecific allowance.

Ms. Wowchuk: Are you saying then that even though fishermen are having a difficult season, they are managing to stay afloat, so to speak, and they are managing to maintain their payments and you are not having to foreclose on many of their loans?

Mr. Wakeling: The total number of repossessions that we had during the 1992-93 period in question would have been under 12, other than voluntary surrenders.

Ms. Wowchuk: So I guess that would be a consistent level. You are not seeing a tremendous increase in people who are getting out of the business?

Mr. Wakeling: We have seen an increase in the past year in the number of people who are voluntarily surrendering assets or are getting out, but our portfolio numbers argue that there has not been a significant decrease. Other members are coming into the industry.

Ms. Wowchuk: Of those people who are getting out of the actual fishing industry, are they coming back to you to look for alternative businesses in their community, alternative industries related to the fishing industry perhaps, and have you had any

applications for people who might be changing to fish farming?

Mr. Wakeling: We have had no applications for aquaculture. I can think of two instances where people have approached us for financing to get out of fishing. One, they have crossed right out of the industry entirely, and in one case they were proposing to get into a different level of the industry.

* (1100)

Ms. Wowchuk: Perhaps that other level of the industry is processing, and that is where I was leading to. Are there any communities that have approached you and are looking at getting the value-added jobs from their industry and looking at processing the fish products in any areas?

Mr. Wakeling: During the period in question, no. It does seem to be moving that way. We have had some inquiries along those lines lately.

Ms. Wowchuk: Just back to the aquaculture. Is that something that you see as a viable alternative in some of these communities, and does the economic development group have any expertise in that area where you could provide services to the people who might be interested in that industry?

Mr. Wakeling: That expertise is available from other departments. We would point them in the right direction. There is some small-scale viability in what they refer to as put-and-take operations which are primarily stocking with fingerlings, harvesting in the fall before winterkill of small-scale fish, primarily rainbow trout and lately some Arctic char, but the overall aquaculture industry in Manitoba is not very large. We have lakes that produce the fish for free.

Ms. Wowchuk: They may produce the fish for free, but we have a tremendous shortage of the stocks to put into the lakes. I know that there are people in the communities in my constituency who have expressed some interest and look at the possibility of spawning grounds and also of looking at an alternative to harvesting from the lake. So I would hope that someone would pursue that a little further and maybe you might be getting some additional applications in that area.

I want to talk briefly about decentralization, and there is a line in the budget that talks about decentralization. The original cost was around \$60,000 and that was to establish the—what was established with that fund, was that the office in Swan River or were there other offices that were set up at that time?

Mr. Offet: That was the amount of money that was set aside to cover relocation costs and moving costs relative to all of the operation, with the exception of the fish offices.

Ms. Wowchuk: You said with the exception of the fish offices, so those will not be covered? Yet those came after this time, or they will come out of another area or are they included in this cost?

Mr. Wakeling: The fish offices were not decentralized. They were not accepted at their existing locations.

Ms. Wowchuk: Have you done an analysis—I have asked this question in other departments—of the value or the success of decentralization and whether there have been additional costs incurred by the fund now, whether there is an increase in telephone costs or travel costs, or whether they are equivalent and what the benefits are to having moved the offices? Has anybody done an analysis of that?

Mr. Offet: There has not been a lengthy analysis directed specifically to all aspects of decentralization, although as part of our annual presentation to Crown Corporations Council we did do an analysis of incremental costs related to decentralization of the head office.

Certainly, travel costs have increased significantly, but by the same token, we are working in the area that we are intended to serve, so that there are obvious benefits. I think there are communities that are seeing CEDF personnel that probably had never seen this before because of the fact that we are up there.

Ms. Wowchuk: That is what I would hope would be the result, because certainly the staff that is providing this service should be in the communities. I was wondering, the actual costs, whether you could put a dollar value on the increase in costs. I know that there is a benefit to

the community, but as far as running the operation what we have seen in increase in operating costs.

Mr. Offet: The answer is the overall operating costs have not increased, but some cost centres have increased, while others have decreased. So overall, the operating costs remain about the same.

Ms. Wowchuk: A couple of years ago you opened an office in Swan River, and seeing that that is my area, I appreciate having that office there to serve the people of that part of the province and in my constituency. Are you looking at opening offices in any other areas in the North, and do you see a need for more offices?

Mr. Offet: We are evaluating the effectiveness of our various branch offices, and certainly, we have discussed the possibility of having another office somewhere in the northwest and possibly in the Interlake, but we do not have the financial resources at this point in time to justify that and it is still in the planning stages.

Ms. Wowchuk: But you see that as a need, as a benefit to the people of the various regions if there was the financial resources there to expand the offices to those two regions?

Mr. Offet: Yes. Travel and the amount of time consumed in travel is a big consideration in deciding how you can most effectively serve a given area, and there are areas in our territory, the Interlake in particular, that it is difficult and costly to serve. Certainly the area on the east side of Lake Winnipeg presents a challenge to us, because in order to visit those communities we have to, first of all, travel to Winnipeg.

Ms. Wowchuk: Just one other area before I pass it on to my colleague. You have a board of directors that represents part of the province, although that does not appear to be a representation from the eastern side of the province and the Interlake area. I wonder what is the rotation on the board, the time an individual can serve, and how often does your board meet and where would they meet?

Mr. Offet: The board members are appointed by Order-in-Council, and they are appointed for two-year terms. Recently two of the board members were reappointed for a further two-year term. The board meets approximately six times a

year, or more often as required, and they meet in various locations throughout the province.

In the last year they have met in Thompson, they have met in Lynn Lake, they have met in Winnipeg, and we are scheduling a meeting for if not the next meeting of the board the one following for the northwest side of the province.

Ms. Wowchuk: This may be in the report, but I have not found it, I have not looked, what would be the approximate cost of the operations of that board for the year, considering the amount of travelling that they do have to do?

Mr. Wakeling: Our total expenditure for directors' fees and expenses last year was \$47,878.

Mr. Edward Helwer (Gimli): I do not have very many questions, but I represent the area on the west side of Lake Winnipeg whereby a number of fishermen, a number of my constituents, take advantage of the Fisherman's Loan Program, and I really believe the program is working very well. As a matter of fact, most of our fishermen are quite happy with the program. I think it is working much better than it was when it was the MACC program actually. I get very few calls on it now. I did first when the program started, there was a lot of concerns, a lot of confusion it seemed, but I think most of those questions have been answered. I think the amount of security that they take under this program is great, it works well, so I want to commend them for doing an excellent job on the program.

There is one thing, though. You have one person located at Gimli, I understand, that looks after this program. Is there any intention of expanding this or getting two people maybe to work out of the Natural Resources office there at Gimli for this program?

* (1110)

Mr. Wakeling: We actually have our own office location not located in Natural Resources, but at this point in time, no, there is no plan to increase staff with limited resources, so it would not be probable.

Mr. Helwer: The person that you have there looks after the Interlake and the west side of Lake

Winnipeg and also the fishermen on the east side of Lake Winnipeg, so at this time that is sufficient, is it?

Mr. Wakeling: That person's territory, roughly speaking, is from Dauphin River south and east around to Traverse Bay, yes.

Mr. Steve Ashton (Thompson): Mr. Chairperson, I want to apologize for being late, but I just got in from Thompson. The flights do not always co-operate. I know the minister has had some experience with that, and certainly two out of the three representatives from CEDF have that experience on a regular basis.

I wanted to raise a number of questions, and please forgive me if some of the issues have been dealt with previously, and I will not feel offended if I get the response that that was asked already and I can read it in Hansard.

I will start, just generally, in looking at some of the trends that have taken place in terms of CEDF. I am certainly pleased to see CEDF involved far more actively. The report points to the trend over the last number of years and, particularly, with two developments here, one, of course, being the Fisherman's Loan, which essentially transferred to CEDF. There has been an enhanced role for CEDF. But also largely because of the forestry side, particularly involving Wabowden, there has been a number of significant loans this year reflected in the increase in portfolio.

It is a welcome change from 1989 when we went through a significant transition year, and the years from 1989 through 1992, actually prior to this year, when we saw significantly reduced loan activity in terms of both numbers and approval of loans, so I am certainly pleased with the trend, because I have always felt that there is a significant role for CEDF, and I still believe there is a significant role for CEDF in the North that can be further expanded.

What I want to deal with, there are a number of questions. First of all, just on the balance sheet, I am just wondering if I can get some indication in terms of staffing. I note between 1992 and 1993 there has been a significant increase in the staffing line. I just wonder, is that related to the

Fisherman's Loan transfer and if so, what is the current staffing breakdown?

Mr. Offet: Currently we have 14.5 PYs. Three of those person years are dedicated exclusively to, or actually four are dedicated exclusively to the Fisherman's Loan Program, and Mr. Wakeling divides his time between heading up that program and serving as our manager of Finance. I guess he would be another half person. The balance of the staff are devoted to the Business Loans Program and to the general administration of the Crown corporation.

Mr. Ashton: So the increase is basically just the transfer responsibilities. Has there been any increase in terms of staffing outside of the Fisherman's Loans aspect?

Mr. Offet: Not in the year-end review, no.

Mr. Ashton: Just a question in terms of the decentralization. Of course in this report there is a reflection of the fact that the costs would have been incurred in the previous years of that decentralization. What was the impact of that in terms of staff? How many people were moved? How many people did not move from the Winnipeg operation?

Mr. Wakeling: Pardon me while I calculate that quickly. The Thompson operation location was decentralized primarily. There are nine positions in the Thompson location. Three of the people in Thompson at the time had moved from Winnipeg. My position was decentralized from Winnipeg but I joined the fund, and I am not decentralized. Five people were hired in Thompson to replace people who had chosen not to elect for decentralization.

Mr. Ashton: So there were five individuals who did not transfer. What positions were the five positions?

Mr. Wakeling: The positions were clerical positions.

Mr. Ashton: You know, I am certainly pleased to see the number of jobs filled in Thompson. I just point once again, this is one of the concerns that was expressed in terms of decentralization. Essentially, what has happened is the clerical staff, the lower-paid staff felt they were unable to move.

It was really the more senior positions then that were transferred.

Mr. Wakeling: I must apologize. Decentralization occurred in 1991, not in the period under review.

Mr. Ashton: Yes, I realize that.

Mr. Wakeling: And also prior to my period with the fund, so I do not believe I can comment.

Mr. Praznik: Yes, the concern that the member for Thompson (Mr. Ashton) raises with respect to clerical staff whenever moves take place, his observation is correct. It is probably most difficult for those people to make the moves because there are often partners who have other jobs, often higher paying and so the economic advantage of moving is not there.

I can tell the member, having gone through Labour Force Adjustment and I am sure we will get into these questions in Civil Service Estimates, in terms of Labour Force Adjustment issues, the clerical staff, and I note in decentralization alternative job offers and things were made to try to accommodate people, clerical staff tend to be the easiest to place.

I am putting myself out on the line a little bit here, but I would think that in terms of clerical positions generally, when we have done Workforce Adjustment in government, virtually all of those folk have been placed. There might be some exceptions, but they have been the easiest to place because clerical administrative support skills are most easily transferable to other positions.

So I appreciate the member's concern. It is one that is shared. The up side to that is those are positions that are easiest to find alternative employment in government.

Mr. Ashton: I am just wondering if alternative employment was found for the five positions, five individuals.

Mr. Praznik: I cannot answer that, not having been involved in that process, but we will. I think that is an issue we can get into in Civil Service, because I believe the Workforce Adjustment issues with decentralization were handled through the Civil Service Commission at that time, while I

was minister, but I would take that as notice for those discussions in Estimates, and perhaps we can get more detail from the staff who were involved in that process if that is acceptable to the member for Thompson.

Mr. Ashton: That is fine if the information could be available at Estimates.

Just looking also on the balance sheet, I notice that payroll tax is listed in 1993 but not listed in 1992. Is there an explanation for that?

Mr. Wakeling: There is a floor below which we were previously located where we did not incur payroll tax, and we rose above it with the additional staff.

Mr. Ashton: That is right. It is interesting seeing it levied actually on a government agency, which is I suppose appropriate if one can consider a financial institution in comparison to others. So that is based on the entire payroll then.

Mr. Wakeling: Yes, it is.

Mr. Ashton: Just some other questions as well. I notice pension expense, significant variance. What is the definition of pension expense?

* (1120)

Mr. Wakeling: It has been asked. There was an accrual in 1992 related to an actuarial report for future pension liability which was not required in 1993.

Mr. Ashton: That will make it a funded liability instead of the unfunded liabilities that are part of the practice with—[interjection] Okay, it is funded, exactly, but I am saying that we may have some other questions on it in the Civil Service Estimates, the Civil Service Superannuation Fund in terms of that, because that is another issue.

I take, looking as well too, and this may have been raised, the government vehicle, that is the new practice within government in terms of expensing vehicles?

Mr. Wakeling: Actually, we incurred or we have additional costs in that area because with the fish loans program we provide field officers with trucks for the purpose of field travel. That is an inherited cost from MACC.

Mr. Ashton: Thanks for that explanation. I notice as well another item that is at variance here is the credit reports. Is CEDF using credit reports less now, or was there a particular number of problems with loans in 1992 that resulted in a slightly higher cost?

Mr. Wakeling: I think in that area we have streamlined our operations. We are now on line with several agencies and we do not have to use outside agencies for credit reports any more.

Mr. Ashton: I have a number of questions. I know some questions have been asked in terms of accounts before in terms of the doubtful accounts. What is the current percentage of items which are listed as doubtful accounts? What would the status be of the overall portfolio in terms of those that are current and those where there are delays in payments and if there is any breakdown in terms of 30, 60, 90 days?

Mr. Wakeling: As the member will note from the Notes to the Financial Statement in the Business Loans Program, an allowance of approximately \$1 million is allowed on a \$5 million portfolio, so slightly under 20 percent in the Fisherman's Loan Program, approximately 22 percent valuation of loans, was taken for doubtful accounts.

Mr. Ashton: I am just curious as to the breakdown though in terms of portfolio, in terms of those that are currently at various different stages of being either in arrears or doubtful accounts.

Mr. Wakeling: I think you have to separate the issue of a provision for allowance with the actual doubtful accounts. Provision for allowance is an accounting and valuation consideration. As it stands right now, approximately 30 percent of the portfolio at any given time could be considered doubtful by notion, accounts that are being worked on with a view to collection or with a view to improving their payment record.

Mr. Ashton: Seventy percent would be then what would be considered current in a normal accounting collection process?

Mr. Wakeling: We classify our business portfolio on the basis of the account being current, no problems, the account being something that should be worked on, and the account being a collection,

and approximately 70 percent fall into the category of being current or accounts that can be worked with.

Mr. Ashton: And that has certainly been the experience. I mean, there seems to be a perception of, you know, a much greater percentage of arrears and problems with collections with CEDF, and historically that has not been the case.

In fact, I am wondering if there is any analysis in terms of what the trend is, whether there has been any shift over the last number of years with a variance in the number of loans, et cetera. I am more interested on the business side because of the fishermen being separate.

Mr. Offet: The trend that we see is the number of accounts in arrears, and accordingly, the loss, the loan loss provisions peaked in the fiscal period under review, and they are dropping off quite significantly this year as the economy is improving. As we are managing some of the troubled accounts either back into health or into extinction, we have devoted a significant amount of time and effort to dealing with that backlog and we see the turning point.

We did do a review of our arrears percentage and loan loss provisions as compared to our counterparts in the other provinces. We have, depending on how you interpret the data, either the best or the second best record of all of the development agencies across the country.

Mr. Ashton: That is encouraging. That is certainly something that I felt was the case. In arguing for an expanded mandate for CEDF, I think that supports that particular move. When one compares the lending circumstance, say, with commercial banks—this is something that has been brought up in various committee hearings in the past—given the specific focus of CEDF, the record in terms of repayment of loans has been quite good.

Just one question. I am just wondering if there are any outstanding legal actions involving loans currently, and if I could get some idea of what the status is of any possible legal actions against loans in default.

Mr. Offet: At this point in time we have six outstanding legal actions, and they are all

undefended collection actions where it is part of the final process of winding down the account where we are suing guarantors or primary debtors and obtaining judgment which will permit us to close the file and just treat it as a collection of the judgment situation, but we are involved in no active litigation at this point in time.

Mr. Ashton: I just want to know what the recovery rate has been on the dollar in the case of loans that have gone into default in terms of assets in the last couple of years?

Mr. Wakeling: When we get to collection it is within norms, it is 30 cents on the dollar or thereabouts, when we get to the point of disposing of assets.

Mr. Ashton: I appreciate that information. I do not want to focus too much on that end of it, but I know that there were also some concerns about procedures that had been raised, and we discussed that in previous reports. My understanding is that there was some investigation. One particular process of disposal of assets that was dealt with, while there was no particular illegalities or problems with that, I do know from the previous minister that assurance was given that there would be appropriate mechanisms in place to make sure that the disposal was carried out properly.

In fact, I just want to ask briefly on that, what the process is, the current practice in terms of the sale of assets when loans are in default.

Mr. Offet: Basically, our policy is intended to ensure that we recover the maximum value from the sale of realizations of security. Immediately following a seizure, an appraisal is obtained from a qualified dealer or appraiser, and a decision is made as to the best means of disposal of that security. It can include private tender if the costs of disposal at auction or at public tender do not justify a public sale. This usually happens where it is important to keep that business going in a community, and there will be somebody who is prepared to buy the assets and immediately start it up from the ashes, so to speak.

Secondly, if there are no extenuating circumstances that justify private tender, our policy is to have a public sale by way of auction or

a public advertisement. Our purpose is to sell the goods to clients or other businesses in the area to maintain the service as long as we can get value out of the security.

Mr. Ashton: I thank Mr. Offet for that information. I just want to deal in terms of the focus of the loan portfolio because it is interesting, and this comes as no surprise to myself representing Wabowden, but Wabowden, according to the information in the report, and largely because of Repap, but not strictly so, accounts for 15 out of 31 of the loans. It fits in with not only the Repap in the bush-chipping aspect, but also the fact there are a couple of loans, a number of loans that are related to other matters, particularly in the service side, but mostly on the forestry side.

In looking at the communities as well—there are five from Thompson, a number of other communities as well, Rockridge, Berens River, Cross Lake and Norway House—the majority of the loans would be in either Northern Affairs communities or in Thompson based on the information that is here. I am just wondering what is happening in terms of First Nations communities, treaty communities. I realize there are somewhat different, quite significantly different financial situations in a lot of cases because of the fact you are dealing with reserves and also differing programs that are accessed. I am just wondering if there is any possibility of expanding CEDF's roles in First Nations communities.

* (1130)

Mr. Offet: I guess the brief answer is that there is nothing in our approach or our policies that restricts our activities to off-reserve lending. There is a problem relative to security that all commercial lenders have relative to taking security on the reserves.

Our experience until recently is that the First Nations communities themselves have been undecided about what they want to do with the resource bases they have and with the needs of their communities. We do have a fair number of clients both on and off reserve in Norway House,

but we do not have very many clients in any of the other First Nations communities.

I guess you could call it our order book has a number of fairly major projects where they are either at the inquiry stage, or one that I can think of is at the application stage of fairly significant projects on reserves.

Mr. Ashton: The reason I raise that—and I concur with Mr. Offet's observation, part of it has just been in terms of within the communities themselves, partly because it is a different orientation in a lot of cases of First Nations communities towards community businesses rather than individual businesses, and partly because there have been some ongoing negotiations, et cetera, in regards to such things as Northern Flood Agreement which have now been—well, I should not say they are resolved, but they are in the process of being resolved in the case of at least four of the five communities.

I know in my own constituency certainly one of the first things that the communities were looking at, apart from having safe investments, is getting into some investments that would involve job creation, particularly in the service sector.

I am just wondering if it has been pursued, particularly in the service side. I will take Nelson House, for example. There are a number of business interests that have started up fairly recently. There is a fairly significant population. The same thing in Split Lake, it is road accessible, so you do not have some of the other economic problems you might run into in more isolated communities, but it is an untapped service sector in those communities.

I am wondering if CEDF is contemplating any changes in approaches or is involved in any discussions that might make it part of tapping into that potential. Most of it comes right now to Thompson or even further south, but there is a significant disposable income in a lot of the communities. It really does not circulate in that community, it does not create economic benefits.

Mr. Offet: The answer is yes, we are aware of what is going on, and we are involved in some cases, not necessarily in our primary role as a

development lender. An example would be, we sit on the board of directors of the Split Lake Development Corporation and, in that connection, form part of the decision-making group relative to financing some of those service businesses that you are talking about.

We have not had any approaches in the last year from any entrepreneurs from Nelson House. Cross Lake we have had several, and we are working on an application right now for a service station/car wash in Cross Lake, as an example.

Mr. Ashton: I think that is the kind of venture that has got a fair degree of possibility, because once again, there is a lot of potential. A lot of communities have virtually no permanent service sector. Often there will be maybe a restaurant, if that.

In a lot of cases there are also small housing based, I guess you would call them almost corner stores done on an independent basis. I know we have had this discussion, but I just wonder if there is any movement contemplated into that area, because one of the dilemmas people end up with is when they have the money—and this example is not unknown to Mr. Offet, we have discussed this. At Split Lake there is a family that whenever they have the money available they sell pizzas. They do quite well, but it is a question of having the money there, and it is often the question of a few hundred dollars, if that.

It does create a spinoff in the community as well, creating some economic opportunities for that particular family. There is a lot of other small housing base. I mean, you go to every different part of Split Lake or Nelson House or virtually any northern community, and you will not necessarily have any stores from the outside, but many houses sell confectionery and other items.

So I am just wondering if there is any contemplated ways in trying to bridge that gap between the demand that is there and people willing to meet that demand but often just lack fairly small resources in terms of getting the supply in inventory to be able to satisfy the demand.

Mr. Offet: Well, dealing with your pizza example, the band-owned development corporation in Split Lake just recently approved \$10,000 in financing to the pizza entrepreneur so that he can actually bake his own once he gets the equipment.

We want to work closer with those economic development people on the reserves, because we think that the way in which to reach the potential entrepreneurs is through their own people. If we can provide them with the benefit of our experience and our knowledge of financing, the capital is there, it is available. It is just a question of seeing that it is directed into the purchase of assets and the establishment of businesses that are going to be there six months hence and not used, as they often have in the past, as a temporary source of income, and that the business is like a phoenix, it rises and then disappears in smoke.

We also, as you will recall from a conversation you and I had, are looking actively into the possibility of starting some sort of a microloans program to get to that subclass of entrepreneurs, and we are working closely with an organization that is interested in doing a Calmeadow type project with our assistance, the Thompson YWCA. We expect something to happen on that in the not too distant future.

Mr. Praznik: If I may just add to that for the information of the member for Thompson (Mr. Ashton) because I know when I was in Thompson this winter I met with some of his constituents, including his wife, who were very active in promoting that type of loan fund. Following that meeting, coming out of that with CEDF were the discussions that have taken place with the Y and others for that loan fund.

* (1140)

I understand that CEDF has made an offer to the sponsoring group to provide a loan of capital that they would administer. So something good I think has come out that and hopefully the Y, I think, is considering that now and has not yet responded to that offer. Hopefully we will see that initiative result in some of that kind of loan capital being available to those very small entrepreneurs and hopefully be successful.

Mr. Ashton: Well, I would certainly encourage it. Without referencing any specific involvements—I do not want to get any conflicts of interest—but I have some experience in terms of Communities Economic Development. I have talked to Communities Economic Development in Thompson and Cross Lake. Of course, in addition to being the MLA, it is one of the areas that is certainly top priority in northern Manitoba, and quite frankly it is an idea whose time has come. What is happening, if you look at the growth rates in terms of even home-based businesses, for example, there is significant growth in that area.

Depending on which study you look at, there could be between a quarter and a third of all Canadian households involved in some sort of economic activity. It is probably going to expand even more with some of the information-age technology that we have, the information network, more and more people working from home in that sense in a self-employed consulting side, but the North is probably the most fertile territory because once again they are going into the communities.

I do not know of a community where people are not producing handicrafts or producing some sort of goods which are often sold in a very sporadic way and sold on the basis of having the raw materials to be able to produce the goods. So it is something that I think probably could be applicable pretty well anywhere in Manitoba, but particularly in rural Manitoba and most particularly in northern Manitoba because of the circumstances. So I would be very encouraged to see anything of that nature.

Now I know other jurisdictions in Canada have done a lot of work in this particular area and I certainly welcome it. I am just wondering because I am dealing with two ends of the scale here because ironically we are talking of the smaller loans, you know, which is one area. If you look at the portfolio here, there is also a significant number of larger loans now, larger because of the Repap situation.

I just want to deal with that for a moment because now the latest thing with Repap is they want to move beyond the current equipment, and

they are approaching people. I do not know the technological terms here, but I have been approached by a number of people for essentially one machine that does it all. It will cut, chip; you know, do everything except turn it into a two-by-four, and the cost of that I understand is in the \$500,000 range.

Repap says it is more efficient than the current technology that has been in place. Really it has just been put in recently. I am wondering if CEDF has had any discussions with Repap or any of the individuals who are currently involved with looking at the possibilities of purchasing that equipment.

Mr. Offet: The answer to that is yes. We have had many discussions with both the Repap officials and our client contractors who are dealing with Repap with respect to changes in the harvesting methodology.

There has been some confusion related to the issue because until recently the contractors and Repap were not able to agree upon the type of machine that should be used in this next phase of the harvesting process. It is accepted I think by both the contractors and certainly Repap that, at least in the Wabowden area forests, the days of the feller-buncher are limited, that indiscriminate clear-cutting is not the most efficient way, and certainly not the most environmentally sound way to harvest it.

The new harvesting equipment permits selective harvesting, a degree of treatment of the product right on the site, that leaves the debris in the forest rather than on the roads; and, as for the benefit to the company, in this case, Repap, it maximizes the production of saw logs. There is money to be made in saw logs right now.

The cost of the machinery that has been selected is not going to be in the half-million-dollar-a-unit range. It is going to be closer to \$300,000, but the contractors who have done extremely well for the last two years are in the process of negotiating with Repap on a payment basis that would justify their disposing of their existing equipment and moving into new harvesting equipment, and it is

anticipated that in a fair number of those cases we will be asked to participate in the financing.

It has been good business for us, and it has created a new class of entrepreneurs in the Wabowden area, for example. These people have learned the lessons of doing business for themselves in a relatively painless way in the last two years, and, in most cases, are ready to take this next step.

Mr. Ashton: Yes, I was just going to ask a question without getting into specific individual loans, what the general experience has been, if they are all current, if there are any problems at all.

Mr. Offet: All of the loans are current. An investment of \$3.2 million in the year under review in the Wabowden area yielded, in the first year of operation, incomes in excess of \$3.7 million to those contractors. At our request they have set up jointly administered sinking funds that set aside a portion of their earnings to cover just the event that is looming in the future, the replacement of that machinery. With the co-operation of Repap, and we are certain that is going to be forthcoming, they will continue to do very well.

Mr. Ashton: That is encouraging because I know there were some concerns, including from some of the people initially involved, with the level of financial commitments they were getting into, and I must say too, there were some concerns about Repap's stability at the time, but I think the current lumber prices may have helped deal with that problem. So I think that the general health in forestry, certainly in the Wabowden areas, can be fairly positive, certainly for the foreseeable future.

I am just wondering, then, just to finish on this subject: Is Repap basically talking then of existing operators? Are there further shifts anticipated? Is it strictly Wabowden that they are currently talking about? Or are they talking about any additional movements toward the current situation that is in place in Wabowden?

Mr. Offet: Initially, and this will occur in the next couple of months, four to five contractors in the Wabowden area are going to move to the new harvesting equipment. Once they have demonstrated to the other Repap contractors that

this system works and that it works for the contractors as well as working for Repap. It is anticipated that, in all of the cutting areas where there is a mixture of growth sizes and there can be saw logs salvaged, they will move into this type of harvesting a crop.

Mr. Ashton: It would be interesting to see how that develops and particularly again having CEDF in the position—there are debates back and forth, even within Wabowden itself and Thompson, about the advisability of the move that Repap made, but given the fact they made the move, it is very encouraging that CEDF has been supportive of people in the community and has helped maintain them in the jobs. Otherwise, the jobs would have gone elsewhere, I mean, to those who could have financed it, and it has had a significant impact in a community that has been pretty hard hit for quite a number of years, particularly in the forestry side of it, declining employment. So I certainly want to commend CEDF for its commitment.

* (1150)

Dealing in terms of focuses within communities again, I am wondering, I talked about treaty communities; I have talked about some of the Northern Affairs communities. If one looks at the portfolio, what tends to happen, I think, is the more accessible a community, the more developed the business sector to begin with, the more loans tend to be approved. Out of the eight communities in my constituency, for example, the business sector outside of Thompson is most developed in Wabowden. So there is a tendency, I think, for that to happen.

I am just wondering if there is any specific focus in terms of some of the more remote communities. I look at some of the smaller communities like Ilford, Thicket Portage, Pikwitonei, Meyers, and there is a whole series of Northern Affairs communities elsewhere, where once again, there is a small business sector usually, but because of a lack of financing, it tends to remain that way. Although in the case of some of those communities, there is not the same problem that we referenced earlier in the sense that the people

who are in business have been around for years and some of them quite well.

I look at Bill Cordell, for example, with his satellite business, run out of Pikwitonei, which is not accessible other than by winter road during the winter and by train the rest of the time, although I know Bill gets out by boat or skidoo or I think he would walk out if he had to. The lesson of that is that if you have the right market, in that case, servicing the entire North, you can be located virtually in any community. I am just wondering if there are any efforts in place to try and get more of an uptake in terms of CEDF in those communities, get more business development. When we talk business development, we are talking small business here, not necessarily microloans, but probably in the more modest range in terms of loans.

Mr. Offet: That probably represents the greatest challenge that the fund has in northern Manitoba right now. How do we identify or get the individuals who have aspirations to become business people to identify themselves to us? We work closely with the Northern Affairs Economic Development officers who have the primary responsibility of trying to find these people and help them develop their business plans. We visit the communities ourselves. Our consultants are well known in those communities, yet we seldom get even an inquiry, let alone an application from the communities. It is an area that represents a challenge to us, and I also personally find it very perplexing.

Mr. Ashton: Indeed, I think a lot of it has to do with the general economic situation which is—a lot of communities are probably facing tougher times they have seen for quite some time. Some of the communities where there is an existing business core group, it goes back to when, for example, Thicket Portage and Pikwitonei were boom towns, just 20, 30 years ago, double, triple the population. Thicket Portage was the staging point for Thompson, and Ilford the same way. There are all sorts of histories to communities that people often neglect. So I certainly encourage that, because in some of those communities, I am afraid, if there is a continuation of another generation of

high unemployment and people increasingly ending up on income security, and I see a lot of communities where it is getting tougher and tougher.

It is tougher on the commercial fishing side; people are dropping out. It has been tough on the trapping side, and it has been almost nonexistent in a lot of communities in the last couple of years as a real economic activity. It is getting tougher now even to go on unemployment insurance. So you are going to see more and more people, you know, on income security, and that is not what they want. They want the job opportunities. They want employment, and in some cases even seasonal or part time. In many of the communities that is what exists now. It is not a problem. So I would encourage CEDF to look at that.

Also, given the fact that some of the communities are going to be looking at different circumstances, Thicket Portage, for example, may have road access. I use the word may because Repap has made all sorts of statements in the past about when roads might go into the communities, but the road might be into Thicket Portage by 1997. There may be line power into both those, Thicket Portage and Pikwitonei. I am just talking about communities in my own area. That can change economic logistics as well as improving the lifestyle in the community simply with sewer and water. Half of Pikwitonei has it now and half will have it in 1997. Thicket Portage will hopefully one of these days be in the same category. There are a lot of communities in that situation where there may be some changing circumstances.

Also there are people who have gone through various education programs, and while there perhaps is not the same emphasis there should be on the economic development on the business side, although KCC is starting to move in that area, there is certainly a core group of people out there who have the education now and the interest in, if not being involved themselves, then helping the community get involved. So I would certainly encourage that.

Just one question on the flip side of it. We have had this discussion as well. I am always puzzled

too by the lack of uptake in Thompson, and I realize there is a developed business community, but there has also been a dramatic shift even within existing business structure in Thompson in the last number of years. We have got more and more franchises coming in, for example, on the restaurant side. There has been a shift within other sectors as well. I am just wondering if there are any plans beyond the microloans, which I think is very positive, aimed at tapping in some of the potential in Thompson. I realize part of it is that the commercial banks do deal with some of that business, but I know a lot of people that do not get touched by commercial banks, and yet, obviously, they are either not turning to CEDF or perhaps there is not the understanding what CEDF can do. I just wonder if there are any strategies that you are contemplating in, and I am not speaking about Thompson but some of the other urban communities in northern Manitoba.

Mr. Offet: The answer to that is yes, and they are beyond the strategy point. There are actual things that we are doing right now. Gordon and I recently made an appearance before City Council in Thompson, because we have concluded, along with our board of directors, that one of the significant problems that the fund has, even in the community where it has its head office, is that nobody knows about it. The level of awareness of even the fund's existence, let alone what it does, is very low in all of the industrial communities in the North including Thompson, and we have decided that we might as well start with the community leaders and educate them and enlist their support, and we got a very positive reaction from the city.

In two weeks I am speaking to the Chamber of Commerce in Thompson. I have already spoken to the Chamber in The Pas and Lynn Lake and a number of other communities, and it is sort of a grassroots information program that appears to be paying off in the form of applications. Sometimes our good work pays dividends for others. After several appearances in Lynn Lake we got a very good application from a pair of entrepreneurs. We sent them to the one bank that exists in Lynn Lake to get a requisite letter of refusal and the bank fooled us by providing a loan instead.

Mr. Chairperson: I would seek some guidance from the committee, as it is twelve o'clock. Is it the will of the committee to pass this or continue on?

Mr. Ashton: I just have a few more comments. We could probably be out of here in 10 minutes, 15 minutes maximum. [interjection] If people have to leave the committee, I can assure there are no motions coming. We can finish up, but I just do not want to see having to bring staff back for another committee meeting for 10 or 15 minutes. I am virtually ready to wrap it up.

Mr. Praznik: Mr. Chair, I would prefer to wrap it up today, but I would just point out to the member for Thompson (Mr. Ashton) that a number of his questions were asked by his colleagues from his own party. That perhaps is why the patience of some members of the committee is rather thin, because the questions were previously asked, some of them by his colleague. We appreciate his travelling down from Thompson, but I think that would explain it. So I would appreciate if we could move forward.

* (1200)

Mr. Ashton: Mr. Chairperson, I do not understand why people are so upset. We normally assess where we are at twelve o'clock, and I have sat on many committees where we sit until 12:30 and where we bring committees back in some cases for half an hour or an hour. I am saying we are going to be out of here in 10 minutes. I am virtually finished. I said right from the beginning that I could be told flatly up front that if I asked a question—and I believe it was in one case said that way, that it already been asked. So I do not think I have taken up any time, and these are all important issues in northern Manitoba.

In fact, this may come as a surprise to some members of the committee, but most of the last 10 minutes is going to be spent on some positive comments, because I did not want to just pass this committee report without indicating that I am pleased with a number of items here.

In fact, I want to start by indicating I am pleased with the enhanced role that CEDF has undertaken. That is something that I have been suggesting, my colleagues have, for a number of years. I am

pleased with some of the kinds of areas that CEDF is getting involved with. I mentioned particularly in terms of the forestry side.

I am particularly pleased, by the way, Mr. Chairperson, with what the board is doing and staff and Mr. Offet in particular. I have met with Mr. Offet, so I will be up front and say I have been very impressed by what has been happening. The chair of the board, we have had discussions as well, in fact staff on a regular basis, usually at music lessons and various different things.

I think the CEDF is on the right track, and I wanted to put that on the record, because I have always said if I see something that is negative, I will be critical. I was very critical a number of years ago with the direction CEDF was headed, and I am very pleased with the new direction.

I do not want to leave the minister out either. I am not trying to deflect from any role he has had in this, because I think the minister has been clearly open-minded in terms of some of the expanded mandates.

I would also commend CEDF for increasing its profile. Mr. Offet has been speaking at various locations, and I have been hearing about it, and he has I think raised the profile of CEDF. I would say, keep on doing it. That is what is part of the problem. It is not that CEDF cannot perform the function. It is a question of whether people are aware that it even exists, or if it does exist, that it can actually be of assistance to them, because over the years there have been different conceptions about what CEDF is and CEDF is not.

So, Mr. Chairperson, that is the only reason I wanted to continue past twelve o'clock. Now, I realize that I may have offended some members of the committee, but I am quite prepared to pass this report and once again commend CEDF for some very significant changes the last couple of years, and thank Mr. Offet, his staff, the chair of the board and the minister.

I do not often do this, Mr. Chairperson, but I would say in the case of CEDF, keep up the good work, and I hope that we come back next year, regardless of what happens politically in between, and we will see continued progress, because this is one of the better reports I have seen from a Crown entity in quite some time. It is probably about the most encouraging report I have seen from CEDF certainly in the four or five years I have been a critic for CEDF. So, very well done.

Mr. Praznik: Mr. Chair, very briefly, the member for River Heights (Mrs. Carstairs) had raised a question about the numbered corporations that have received grants. I will undertake, on behalf of CEDF, to have filed with this committee a list of the owners or applicants who applied under those numbered companies. I just would not want it to be on the record that there was a refusal, or hint of that, to provide that information. Staff will provide a letter to the Clerk of Committees to be received and available to all members of the Legislature.

Mr. Chairperson: Shall the Annual Report of the Communities Economic Development Fund for the year ended March 31, 1993, pass? The report is accordingly passed.

Committee rise.

COMMITTEE ROSE AT: 12:04 p.m.