



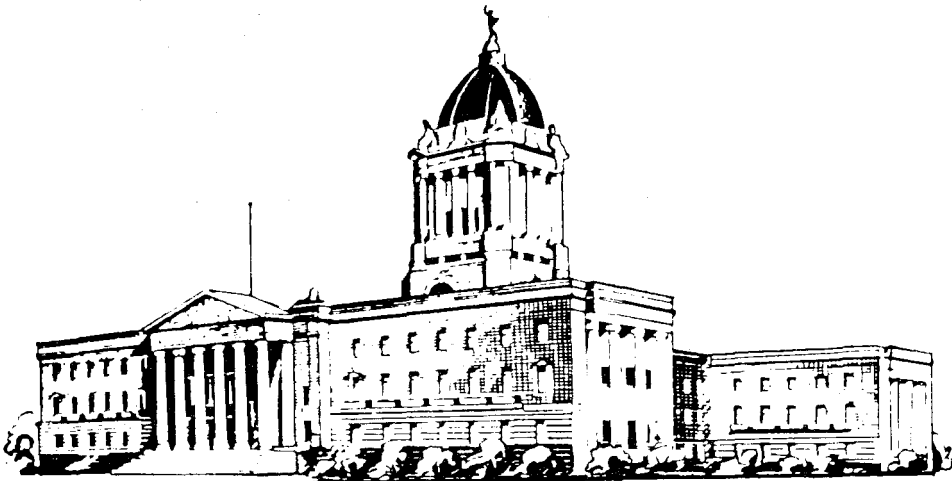
Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

Chairman
Harry Shafransky, M.L.A.
Constituency of Radisson



10:00 a.m., Thursday, May 29, 1975.

ECONOMIC DEVELOPMENT COMMITTEE
10:00 a.m. Thursday, May 29, 1975

CHAIRMAN: Mr. Harry Shafransky

MR. CHAIRMAN: Good morning. We have a quorum. We can proceed to receive the Annual Report from the Communities Economic Development Fund. I'm going to call upon the Minister to introduce the new Chairman of the Communities Economic Development Fund, Mr. Green.

MR. GREEN: Mr. Chairman, the new Chairman of the Economic Development Fund is also the Executive Secretary of the Planning Secretariat, the Economic and Resource Development section of the Planning Secretariat of Cabinet. Mr. Loxley is a trained economist who fulfilled functions of a similar nature and those related to banking facilities in the State of Tanzania. He is a man with an exceptionally strong academic and practical background. He has been with the government since approximately February of this year. He has had an opportunity of reviewing and giving an overview to the activities of this organization and now has been meeting with the board of course since that time. We are very happy to have him with us and I think that the members of the committee will have a better opportunity of assessing him as far as they are concerned during the hearings of this committee. I call upon Mr. Loxley.

MR. CHAIRMAN: Mr. Loxley, would you like to step up and give your introductory remarks. Possibly we shall proceed in the same manner as we have in the other committees where we will have the Chairman give his general comments on the Communities Economic Development Fund under the Annual Report for the year ended March 31, 1974 and then allow questions on any section before we proceed to a page by page perusal of the actual report. I'm sure that the Chairman will wish to call upon some members of his staff and that will be done on that procedure. Mr. Loxley.

MR. LOXLEY: Thank you, Mr. Chairman. I understand that the Fund has made several submissions to the Standing Committee in the past and I do not propose to cover the same ground. I would like to speak to the 1973-74 Annual Report and in particular to concentrate my comments around the Auditor's statement on Page 10 and I would like to use this statement to highlight some issues of policy facing the CEDF and through this hopefully to throw light on the nature of the CEDF's business.

The paragraph of the Auditor's report that I would like to speak to is that which reads: "Although the operation of the Communities Economic Development Fund is in compliance with the Act, it is not organized on a sound financial basis because it is not in a position to cover its interest charges and risk losses. Therefore increases in its accumulated deficit are inevitable." I would like to make comment on this statement which I believe needs clarification. And in the process I hope to explain some of the problems that the Fund faces with the current financial structure and to raise some issues of policy that we will be facing in future.

The statement by the Auditor has to be seen, I think, in the context of the functions of the CEDF. The function of the CEDF as laid down in the Act, in the Section 11(1) is that the Fund should act as a lender of last resort; this is the specific function of the Fund. This has certain implications for the nature of the borrowers, the clients of the CEDF. They will be quite different from the borrowers or the clientele of ordinary financial institutions. They will be different from the point of view of their experience in business, most of them are entering business for the first time. They have therefore often no proven record of ability in business. Frequently they are not able to demonstrate with any precision the market which is available for the product that they are producing or selling. More often than not they have only themselves to rely upon for business advice. They are located, in accordance with the Act, mainly in remote and isolated communities and this has the implication that communications with the borrowers are very difficult. Frequently because they are starting from scratch, they have very little security to offer in terms of traditional financial securities and also frequently they have an inadequate equity base. They are under-capitalized from the very beginning. And yet when they come to the Fund, the Fund is not in a position really to assist in terms of permanent capital in accordance with its Act. It can do this but more often than not the approach has been a loan approach.

Given this combination of characteristics of the borrowers, clearly the Fund can't be expected to operate as a chartered bank or as a normal orthodox financial institution. Clearly therefore one must expect, as a lender of last resort, that it will frequently encounter bad

(MR. LOXLEY cont'd) debt situations. It's my belief, based on experience elsewhere, that given this combination of factors, that the bad debt record of the Fund is not a bad record in itself. The provision that's been made is approximately 23 percent. This, to my way of thinking, is not in itself a bad record and I think reflects very favourably on the staff of the Fund. I hope I have explained here why it is that it would be unreasonable to expect a very low bad debt performance. The very nature of the Fund's business is such that it is a lender of last resort.

A second feature of the financial structure of the Fund, which can be seen by an examination of the income and expense accounts on Page 12, is that the Fund pays interest on its capital and earns income on interest charged to its borrowers. Given the nature of the borrowers, particularly their financial position, it's unreasonable to expect them to be able to pay very high interest rates. But in fact they are required to do so given the financial structure of the Fund whereby the Fund itself has to pay interest rates to the province on its capital. These rates do give some difficulty to borrowers and they also have implications for the financial structure of the Fund itself.

You can see from the 1973-74 report, for instance, that interest earned is somewhat less than interest paid. The main reason for this is that the interest rates on provincial moneys were rising during this period while interest earned was on funds committed in previous periods.

Given this particular combination of circumstances therefore, it's unreasonable to expect the Fund to earn large surpluses based on interest earnings from the borrowers. As it is the Fund's interest rate structure puts pressure on clients who are already marginal borrowers and as we can see from the Statement of Income and Expense, the interest rate structure also poses problems for the Fund itself.

The third aspect of the finances of the Fund which I'd like to discuss is that of the Operating Expenses. Given the nature of the business that the Fund is expected to perform, given the small size of the borrowers, given their remoteness, given the fact that the Fund is centralized in Winnipeg, for all these reasons and the additional reason that the borrowers do tend to rely very heavily on the Fund - more than would be expected from normal borrowers of orthodox institutions - for financial advice, the operating expenses of the Fund will naturally be relatively higher. I say relative here, relative to advances outstanding is what I mean.

At the same time, given what I said about the interest rate problems of borrowers, it is unreasonable to expect the interest rate levied on borrowers to cover the operating expenses of the Fund itself. It is for this reason that the operating expenses are being met, they are being fully met, for the time being from the MDC.

So I wanted to emphasize these three aspects of the financial structure of the Fund. The first two are the ones that Mr. Ziprick is referring to in his comments. The last one, the Operating Expenses, are . . . covered and that presents no problem. The main point here is that the CEDF is a developmental institution which should be judged more by its social contribution than by its contribution to profit.

Now having said that this raises a number of issues of policy which the Fund hopefully will be looking at in the future. The policy areas concerned will be first of all the whole issue of the capital structure of the CEDF and in particular, hopefully an attempt will be made in the near future to accommodate the comments of the Auditor with regard to provision for deficits. The idea here - well the order to have in mind here - is that there should be some clear, carefully defined way in which deficits will be met and once certain conditions are met, the deficits would be covered automatically. This is what he's referring to. He's not referring to the fact that the Fund is in any way mismanaged. This is a question of the capital structure of the Fund and hopefully one area of policy that will be addressed in the near future.

Secondly, it's clear that some consideration needs to be given at the policy level to the question of the interest rate structure. This again will be done in the near future; the interest rate structure meaning here the interest rate at both ends, the cost of borrowing and the returns from lending.

And thirdly on the question of the operating expenses. These are fully covered at the moment. The procedure is fully satisfactory from the point of view of the Auditor. There is the issue of the separate accountability of the CEDF. At the moment the Operating Expenses are met from the MDC. The policy issue to be addressed here in future will be the desirability of retaining this structure as opposed to giving the CEDF independent accountability.

The fourth policy area which I think needs addressing, based on the remarks that I made earlier, is the question of how should the Fund approach the problem of bad debt, bad debt which

(MR. LOXLEY cont'd) we argue is going to be inevitable. But how can the Fund minimize this, how can it improve on its already quite reasonable performance in this respect?

The line of approach to be taken here will be to consider building up a facility for giving business advice to the borrowers. This has already been started. If you're familiar with last year's annual report, some mention was made of that. This the Fund would like to extend, would like to more formally provide for the managerial and financial requirements of the borrowers. This will also entail some training provisions for the CEDF staff itself. This hopefully will enable the Fund to perform even better with regard to debt management although obviously this will have implications for the operating expenses of the Fund and that should be recognized from the beginning.

So these I think are the policy implications which I would like to raise at the present time. My main objective is to tie these around Mr. Ziprick's comments and to argue that what is meant here is that the financial structure of the Fund is not such that deficits will automatically be covered. My arguments have been that deficits will arise and that the policy area to be looked at is how these can be met and minimized.

In conclusion I would like to add a personal comment as a newcomer to the Fund, that having gone through the files and followed the progress of the Fund it's my opinion that considerable progress has been made in the first three years. The Fund is still a relatively new institution in an area which is absolutely new to the province. I think that the achievements of the Fund in terms of employment generation and the cost of that employment generation, which seems to be roughly \$7,000 per job - which is very low indeed relative to federal commitments - I think this is commendable progress and that the General Manager of the Fund and the staff of the Fund should be congratulated for their hard work and endeavours in building up the Fund to a point where it has a great deal of credibility at the community levels and where its progress has been quite considerable. The Board of Directors too, I think, should be congratulated for the imagination and creativity that they've shown and for their devotion to their duties for which, of course, they obtain minimum compensation.

I would like now, Mr. Chairman, to hand over to Mr. Jones who would bring the committee up-to-date on the details of the Fund's operations since the last time he reported.

MR. CHAIRMAN: Fine. Mr. Jones.

MR. HUGH JONES: Mr. Chairman, the point in tabling the material this morning that you have before you is to complement my review of the fiscal 1974 report. We've tabled, as you've seen, a list of the commitments approved for the fiscal year ended March 31, 1975; a list of all the commitments made by the Fund since we began and the list of the commitments repaid since inception.

To bring you up-to-date on the statistics of the Fund, since we began we have approved, we have given approval for commitments for a total of 196. That's 142 loans and 54 guarantees of chartered bank advances, for a total of approximately \$4.5 million. Allowing for repays, cancellations, withdrawals and reductions in principal amounts, the total outstanding commitments amount to just over \$2.5 million.

At the end of fiscal 1975, the dollar loss ratio on loans authorized was 23.8 percent. The graphs on Pages 5 and 7 in the Annual Report before you illustrate the distribution of our commitments.

I'd like to draw the attention of members to comments made in my review on Page 8 in the Annual Report and supplement them perhaps with these comments. Processing an average of 10 loans a month in the Fund's early days placed a heavy load on the then existing administration mechanisms and continuing efforts were made and are still being made to recognize the crucial need for monitoring those businesses financed by us covering a very wide geographical area. In our own learning process, the Fund has realized that protection of its investment merely by taking - and we still do continue to take a normal wide range of legal security - is of little avail of the degree of management assistance and training is not in place. As you've already been informed, we began one measure to remedy this deficiency by encouraging and arranging - financed by Canada Manpower - through Keewatin Community College, a training program. We recognize, of course, this is not the total solution but the approach of utilizing classroom training did bear some results for those completely unacquainted with commercial expertise. We hope that this concept will go on to further development by extension service into the communities themselves. We have developed our own team of consistent management service input and we've refined considerably the reporting

(MR. JONES cont'd) procedures we use internally when these people come back from the field.

In certain cases the Fund in its loan agreements specify such requirements as the counter signature of cheques drawn on accounts maintained by clients. We also have used the mechanism of appointing representatives of the board and/or staff to boards of incorporated borrowers. As I said in the 1974 report such protective measures have succeeded in the majority of cases. But we have recognized that the wide assortment of loan commitments combined with diverse economic and social circumstances in the communities in which we deal, require a consistent review of the guidance and control systems we've devised. For example, in the fiscal year now under review by this Committee, we have seen very clear examples of imbalance between an over-intensity of control in some cases, as opposed to an insufficiency of control in others.

Recognition has also been given to the fact that there are dangers inherent in terms of potential conflict of interest in appointing Fund representatives to the boards of borrowing companies. In a review of that particular mechanism our legal counsel has expressed the opinion that we would be better served if the majority of the board of a company were to be nominees of the principal shareholders, and if a director appointed by the Fund were someone who is not an enforcement officer but someone who could genuinely, without conflict of interest, participate in the affairs of the company. It could be considered that it would be counter-productive for the Fund to keep too tight a rein on enterprises being developed by unsophisticated businessmen who will never develop the required business skills unless they are allowed to have scope for initiative and decision-making. In these cases it is our opinion that it is not enough to encourage corporate structures, debentures and the like without, at the same time, providing an adviser who can see that these techniques are understood and followed in practice.

In the last nine months or so we have gone through a degree of consolidation within the Fund, one of the prime reasons being the increase in our rate structure. At one time this went up to 13½ percent. During this consolidation process, we undertook a review of our internal organization and we have prepared and published a manual of administration to provide for consistency in presentations of boards and ongoing follow-up procedures.

The report tabled before you refers briefly to changes in management personnel. There are seven professional staff within the Fund to deal with all aspects of developing new business and administering existing loans. The staff deal with all loan applications before presentation to the board where all decisions to approve or decline are made. A brief reference has been made on Page 9 in the report before you, for fiscal 1974, to activities gradually being undertaken by the Fund outside our primary function. Certainly in terms of a more planned approach to the development of proposals coming in to us more co-ordination has been necessary. We have made some attempts within the Fund to undertake the packaging concept and this has become an important factor in our view regarding the generally good rapport which exists between the Fund's staff and many of the remote communities.

Since the report was published there have been two further changes in the content and they are as you know, Dr. Loxley has replaced Mr. Parasiuk as Chairman; Mr. Albert Mousseau has replaced Mr. George Harbottle representing the Indian Brotherhood and Mr. Robert Mayer has replaced Mr. Shutiak.

I believe that the material tabled for you today together with this brief review will bring the Committee up-to-date on the Fund's activities.

MR. CHAIRMAN: Thank you Mr. Jones. Are there any questions? Mr. Green.

MR. GREEN: Mr. Chairman, just before the questions, I had asked Mr. Jones to indicate a correction with regard to an answer to questions that were posed to him by Mr. Spivak last year with regard to some default or loans not entirely up-to-date. And I would want him to give that information to the Committee because he has indicated that it was not - although it was substantially correct - that it is not entirely technically correct and I don't wish there to be any misunderstanding about the information which he gave the committee.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Chairman, at the meeting of this Committee of May 31st, last year, Mr. Spivak asked a question on the number of loans in arrears, loans approved in April, May and June that year. I replied at the meeting that of the 11 loans one was in arrears and one had been cancelled. That was not correct. At the date of that meeting, there were actually 8 loans in arrears; four of them were in arrears one month and were paid subsequent to the

(MR. JONES cont'd) . . . meeting, that is in June 1974. The other four are still in arrears but if I may use the comment "technically so".

MR. CHAIRMAN: Are there any questions? Mr. Banman.

MR. BANMAN: Thank you, Mr. Chairman. I wonder if we could have the figure again of the total loans to date, the total moneys outstanding to date please.

MR. JONES: Mr. Chairman, in my review I mentioned that we have outstanding now approximately \$2.5 million.

MR. BANMAN: Thank you. I wonder if . . .

MR. JONES: Loans and guarantees.

MR. BANMAN: That includes loans and guarantees. Has there been any more capital put into the companies since the statement that we have here? I notice that the direct loans to the companies as of the March 31st, 1974, was 4.5 million.

MR. JONES: No, Mr. Chairman, no capital has gone in since then. We have not requested an allocation of the moneys for this fiscal year.

MR. BANMAN: Of these 2.5 million, I wonder . . .

MR. CHAIRMAN: Mr. Green, on a point of order.

MR. GREEN: Mr. Chairman, I just don't wish misunderstandings about answers. I believe that there is capital authority beyond that which has been put up but it has not been used. There is capital authority available which is not being used.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Of the 2.5 million loans mentioned right now, I wonder if Mr. Jones could tell us what amount of those loans are in, let's say in about 60-day arrears.

MR. CHAIRMAN: Dr. Loxley.

MR. LOXLEY: I think, Mr. Chairman, Mr. Jones has the operating statistics.

MR. JONES: Mr. Chairman, if you mean dollar amounts, Mr. Banman, we have 14 accounts in arrears of our total accounts, active accounts on our books, we have 14 in arrears.

MR. GREEN: I think Mr. Banman said 60-day arrears. Would that make a change? In other words if of the 14, they are one month . . .

MR. JONES: Mr. Chairman, may I be given some time. I have them in front of me here. If you're concerned with the 60-day component, I can let you know very quickly.

MR. CHAIRMAN: Fine. Proceed.

MR. GREEN: Mr. Chairman, it's on this type of question that the General Manager made a mistake last year looking them up right in front of him, and I hope that he will have an opportunity, if he is wrong, to correct himself because this, I know, causes some difficulty sometimes.

MR. BANMAN: Mr. Chairman, I wonder if you could tell me. Mr. Jones, what percentage of that 2.5 million is now in receivership or in process of being liquidated?

MR. CHAIRMAN: I believe you have a copy of the list before you. One star shows "accounts in receivership," two stars "accounts in which legal action for recovery has commenced." and three stars "written off" on the list of CEDF Commitments from Inception - one of those handouts that were provided for you this morning.

MR. BANMAN: Thank you, Mr. Chairman. You know, I would think it's normal practice to know at the end of a certain month what is current, what is 30, 60, 90 days in arrears and what is bad debts or what you intend to write off. I think it's common business practice.

MR. CHAIRMAN: Mr. Jones indicated that he was prepared to give you - there were figures - he's just working on them I believe. Mr. Jones.

MR. JONES: Mr. Chairman, Mr. Gregg, the Assistant General Manager, is getting the figures for you in terms of arrears and also in terms of the receiverships. So if you'd be patient for a few minutes, we'll have them for you.

MR. BANMAN: Fine, thank you.

INTRODUCTION OF GUESTS

MR. CHAIRMAN: While we are waiting, I know this has not been a common practice but it is something that . . . I would like to draw the attention of the members of the Committee to a former student of mine who is the principal of the Whitemouth Collegiate and who brought some students down this morning. On behalf of the members I welcome you here, Mr. Michalow and the students. They come from the constituency of the Honourable Minister of Tourism and Recreation, the Honourable Rene Toupin. That is Springfield.

Mr. Banman proceed.

MR. BANMAN: Thank you. A particular question pertaining to Me-Ke-Si Construction: I notice that several loans have been given to that particular company and guarantees in particular, and the guarantees are marked "repaid" on here until you come to the fourth one and I notice - I guess there must have been a consolidation of all those loans. Because you have three guarantees as you go along here and when we go back to the 1972-73 report, you've got guarantees in there for \$75,000, I believe, and then you've given another two guarantees for another \$75,000 each, and now I guess recently you must have given them a loan for \$209,000 and then a guarantee for \$200,000.

MR. CHAIRMAN: You're referring to?

MR. BANMAN: Me-Ke-Si Company Ltd.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Chairman, there was a degree of consolidation undertaken last year in regard to this account. The consolidation resulted in the loan, now on the books, of \$209,000 and the guarantee issue of \$200,000. So we have a total commitment out to that company of \$409,000.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I wonder again if I can provide the information because I would like the entire picture to be present. The Board of Directors, in considering the Me-Ke-Si Construction account, were not prepared to advance it on the sole security and operations of Me-Ke-Si and requested and received a guarantee to the Fund from the Province of Manitoba for a portion of it. Now I don't remember the portion but I do have to indicate that on one of these loans the government agreed that that money would be advanced, not at the responsibility of the Board of Directors, but because they received a government guarantee. Similar to what would be done under Part II. In other words the government gave a guarantee to the Fund on part of that loan. Now I don't remember the amount but I want the facts of that to be known to the Committee. Mr. Chairman.

MR. JONES: Mr. Chairman, Mr. Banman asked a question on the receiverships. We have in total \$356,484 of accounts in receivership and there are four accounts.

MR. CHAIRMAN: Mr. Banman proceed.

MR. BANMAN: Thank you. So I understand that the Cabinet has advanced certain moneys similar to, let's say, Saunders Aircraft.

MR. GREEN: Well I guess in principle it would come to the same thing except that there is no Part II. The Board of Directors of the Fund were not prepared to deal with the loan on the security of the Construction alone but there was an agreement entered into between Canada and the Government of Manitoba and Me-Ke-Si Construction relative to that firm and that firm only, and on the strength of that agreement the government undertook to protect the Fund from any losses that they would suffer under that account. And I am not able to give you the exact figure at this point but I am aware that that is the case. Mr. Jones might know the figure. I am correct, am I not? - With regard to Me-Ke-Si Construction.

MR. JONES: Yes.

MR. GREEN: My understanding was that there was an agreement between the Government of Canada and the Government of Manitoba with respect to northern rules about them sharing a certain amount of it if money was advanced to this firm, and the government undertook to guarantee the loan that was being made by CEDF to Me-Ke-Si. So that the Me-Ke-Si account stands in a little different position. I believe that's the only one in that position and it stems from the fact that the Government of Canada agreed to pay 50 percent of certain costs if this were done by the Government of Manitoba. It was the way in which we could get Government of Canada sharing on winter roads which was never achieved before. And I regret that I am unable to be more detailed because I don't remember it entirely but I do believe that the government had to guarantee the Fund to save them from . . . harmless or any losses on this loan - not any losses but to a certain amount.

MR. JONES: Mr. Chairman, as Mr. Green said, that when our board considered this proposal they recommended it to the Minister on the basis that the province would guarantee the Fund against losses. The commitment by the Fund totalling \$409,000 is matched precisely by the same amount from the Department of Indian Affairs.

MR. BANMAN: So that the total amount of the loan right now is guaranteed, let's say by an external agency, if you want to call it that?

MR. JONES: The total amount of money borrowed by Me-Ke-Si Construction Company Ltd., is \$ 818, 000; \$409, 000 from the Fund, \$409, 000 from the Federal Department of Indian Affairs and our commitment for 409, 000 is guaranteed to the Fund by the Province of Manitoba.

MR. BANMAN: The total amount?

MR. JONES: Yes.

MR. BANMAN: Mr. Chairman, I noticed while looking through the Order for Return that was provided to us and today with more documents showing the CEDF commitments from inception, I notice that a fair number of those loans are not in receivership and yet the amount owing to date exceeds the amount that was loaned. I'm wondering in a case like that, is that considered a bad debt or an account in arrears?

MR. JONES: Mr. Chairman, not necessarily so. I wonder if Mr. Banman could give me just one example. Perhaps I can clarify some for you.

MR. BANMAN: Irvin Constant Outfitters in Hunting and Fishing. They were loaned \$9,200 and now he owes outstanding as at February 28th, 9,733.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: In that particular account, it's a case of an accumulation of interest. Payments have not been made but there have been other reasons involved in that particular issue. The man was financed to undertake an outfitting and hunting operation in The Pas. After the thing was established the changes in hunting regulations and so on, now prevents him undertaking this business in that area and the whole question is being considered as to whether . . . he has undertaken to sell the equipment financed by the Fund and we expect to see full recovery.

MR. BANMAN: So basically it would almost be in receivership then.

MR. JONES: Mr. Chairman, I wouldn't say that, no.

MR. BANMAN: But it's a bad debt?

MR. JONES: It's a loan in arrears for reasons other than - there are good solid reasons for the fact that he has not been able to pay. He's not been able to operate. It does not necessarily mean that it's a bad debt. We expect to see very substantial recovery.

MR. BANMAN: But there will be a certain loss there?

MR. JONES: There could possibly be, yes.

MR. BANMAN: How about one like Robert Grieves; borrowed \$3,000 and it's in the 1972-73 statement and now he owes \$3,138 and it was a two-year term?

MR. JONES: Mr. Chairman, in the case of that one, Robert Grieves, that certainly is a bad debt. That's one in the category of - it's under process of legal action for recovery.

MR. BANMAN: And we have a pool hall - I'm just going down here - I just list a couple here because I think there's a fair number and I haven't had the time to go through them all. But there's a fair number like John R. Turner. It's a small one but he borrowed \$2,000. The outstanding is \$2,400. and it was also a two-year term.

MR. JONES: Yes. Mr. Chairman, in the accounts you have mentioned, Mr. Banman, they've got two asterisks against them which, we indicate, shows that they are all accounts in which legal action for recovery has commenced.

MR. CHAIRMAN: Mr. Blake. Are you finished, Mr. Banman? Mr. Blake.

MR. BLAKE: Mr. Chairman, I just want to go back to Me-Ke-Si Construction, without the benefit of some fluctuations, to know what the account might have done. I would assume that this account is being monitored reasonably closely by the Fund and I wonder if you could give us some idea if the account is operating to the satisfaction of the supervisors of the Fund, or is it a good strong viable operation, or is there some question whether it will ever be able to repay the substantial sums that it has borrowed?

MR. JONES: Mr. Chairman, in reply to that question. Firstly, the account certainly is being monitored very very closely. If I may go back to when this particular commitment was made - that's the 409, 000 we sat down with officers of the company, with officers of the Federal Department of Indian Affairs and we all agreed that it was absolutely crucial for the success of this company undertaking its contracts, that the services of a good comptroller be provided. We didn't feel it would be at all correct for the Fund itself to get that closely involved, so we identified a qualified chartered accountant to act as comptroller of the company for the winter road season. And his services are being paid for partially by Indian Affairs, partially by the company and partially by the Fund. So in respect of monitoring we get, on a consistent basis, monthly reports showing the activities of the company.

MR. BLAKE: What do they indicate to you?

MR. JONES: They indicate that . . . If I may, Mr. Chairman, we've had I think three years' experience with this company and its undertaking of winter roads contracts. In terms of its financial management, I would have to say in the past two years this was weak. This year we've seen fair evidence that much improvement is taking place. We do not expect to see that this company would be in a position - apart from the fact that the Province of Manitoba is guaranteeing the Fund - we do not expect to see this company lose money. It is in the process now of negotiating a new contract. From the operations of last season, we expect to see sufficient working capital left available under our guarantee commitment to enable it to operate next year without coming back either to us or the Federal Government for more financing.

MR. BLAKE: Do they tender the work that they receive or are these contracts that they receive negotiated as you mentioned?

MR. JONES: They are negotiated. This particular one is one contractor - I can't remember the precise amount, I believe it was a million dollars - but negotiated by the Department of Northern Affairs and the Government of Canada.

MR. BLAKE: So they're not bidding competitively. In effect, the Department could see that they had sufficient contracts to look after their indebtedness?

MR. JONES: Yes, that's correct.

MR. CHAIRMAN: (Mr. Adam): Mr. Banman.

MR. BANMAN: Thank you. The total amount of accounts that are in legal action right now, did you give that to us before?

MR. JONES: Yes, Mr. Banman, to go back to your first question - some idea on the first part first - there are 11 accounts in arrears 60 days or more. There are 31 in the process of legal action for recovery.

MR. BANMAN: Would you have the dollar figure on that, on those 33 accounts or no.

MR. JONES: I can get it if you allow me a few minutes.

MR. BANMAN: Okay, that's fine. I noticed in the Annual Report of 1973-74 you processed roughly about 28 loans and 4 guarantees for a total of about close to \$700,000. Is that right?

MR. JONES: Yes, that's correct.

MR. BANMAN: That's fine. And as you mentioned your operating costs were somewhere in the neighbourhood of \$287,000 which means that that particular year about 50 percent of what you loaned was your operating cost. The guarantees that you give, in effect, you're signing notes, the Fund signs a note, sort of a co-signer on a note or are you . . . ?

MR. JONES: No, Mr. Banman. What we do is when an account - a line of credit is provided by a bank. The Fund provides its guarantee on the bank's standard guarantee form. We instruct the bank what security the bank must take in support of that line of credit. But we execute, the Fund executes a guarantee, a normal bank guarantee so that if something goes wrong the bank firstly is expected to take any action it can under its security which we would have specified but any shortfall would be met on the call of the bank by the Fund.

MR. CHAIRMAN: (Mr. Adam): Mr. Graham.

MR. GRAHAM: Mr. Chairman, I'd like to ask a few general questions and I think perhaps I should direct them to Dr. Loxley. At what point in time do you consider an account to be in arrears? Have you any general guidelines that you follow or is each account dealt with separately?

MR. CHAIRMAN: (Mr. Adams): Mr. Loxley.

MR. LOXLEY: Mr. Chairman, each account would be dealt with separately because in the establishment of the loan separate repayment provisions would be made for each loan.

MR. GRAHAM: And have you then any general guidelines that you follow if an account is in arrears? At what point in time do you consider that it's necessary to begin further action, say legal action or receivership or bankruptcy? Have you any general guidelines to follow in that particular field?

MR. CHAIRMAN: (Mr. Adam): Mr. Loxley.

MR. LOXLEY: Mr. Chairman, the board generally follows the advice of the management in this respect. I think Mr. Jones could perhaps give his description of how the management approaches this.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: If I could perhaps just elaborate a little bit on what happens. Firstly, when the board meets every month they're supplied with a complete report on every account the Fund

(MR. JONES cont'd) has, the status of the account if it's in arrears or not. Payments - depending on the type of circumstances - would normally be due on the first of each month. If when the Board meets that particular month's or the previous month's payment has been missed, then we on staff are expected to and we do and we will comment on the reasons for the arrears. There may be some good reasons. Some of them may be just academic, some may not be. Where an arrear situation gets into three, four, five months then clearly there's a serious problem. As to the action that is recommended for the board's consideration, again it depends on the circumstances. If they are financing, for example, a skidder in The Pas and the machine has been suffering from some deficiencies and he's had to have it repaired, then we try to be reasonably flexible. It depends a great deal, too, on the attitude of the borrower himself. But the point I suppose generally I'm making is that we keep an extremely close watch and a close contact physically with the people that borrow money from the Fund. Every member of the staff is allocated a certain number of accounts and he is expected to be on top of each one. Does that help, Mr. Chairman?

MR. GRAHAM: Yes. I just want to get a general overview of how you operate and at what point in time you say, no, we cannot carry this any longer. we have to start action.

I'm sure that or I would suspect that each case is dealt with very individually when it comes to a decision on whether to operate in receivership or bankruptcy, or is that decision mainly the decision of the fellow that holds the loan?

MR. CHAIRMAN: Mr. Jones.

MR. JONES: No, it certainly wouldn't be his decision. It would be the decision of the Board of the Fund. If, after examination of the conduct of the account the amount of money owing, the amount of money in arrears, and if he can see no reasonable solution, and the attitude of the borrower is such that the Fund's board feels strong action should be begun, then there's no hesitation whatsoever in undertaking that legal action.

MR. GRAHAM: Well, I'll just take a hypothetical case. Supposing you have an operation that should show a reasonable degree of promise and the person that has the loan throws up his hands in despair and wants to declare bankruptcy, can you then take over and operate the thing in receivership rather than . . . ?

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Well there are several routes that can be taken. A Receiver could be appointed by the courts, as a receiver-manager, to run the operation. We ourselves under our loan agreements have the right to go in and do whatever is considered necessary. If the board judges that the business potential, the kind of enterprise is something that should be continued, then the board would perhaps recommend that new management would be found, be identified and put in but you know each case is an individual.

MR. GRAHAM: Is very individual.

MR. JONES: Very much an individual.

MR. GRAHAM: That's what I wanted to clarify.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: If I may address my remarks to Mr. Loxley first in the sense of trying to understand the intent of his initial presentation. The Auditors here has made reference in the Auditor's Report to problems dealing with the organization of it and dealing with the losses and the interest charges and you've covered that and you have in turn filed with us two letters from the Auditor, dated November 7th and April 17th. It would seem to me that we're in two separate areas, well three separate areas. One is organizing the Fund on a sound basis according to the terminology or the understanding of the Auditor - and I think we've had that discussion with the Manitoba Development Corporation - and essentially we're talking about the same thing. The other is the way in which you deal with your accounts; and the third is your own administrative procedures. Now is it your position that the remarks of the Auditor are addressed really just to the first two and not to the three or do they deal realistically with the third which is the organization of the CEDF over the past period of time and in its actual procedures and operations.

MR. CHAIRMAN: Mr. Loxley.

MR. LOXLEY: Well, Mr. Chairman, the words of the Auditor, if I could repeat those are: "Although the operation of the Communities Economic Development Fund is in compliance with the Act, it is not organized on a sound financial basis because it is not in a position to cover its interest charges and risk losses." I think that is fairly clear, Mr. Chairman, that what the Auditor has in mind here that this is not a comment on the way in which the Fund administered

(MR. LOXLEY cont'd) accounts, this is simply a comment on the fact that given the Act, given the functions that the Fund performs and given the capital structure as it is laid down, the Fund will inevitably develop deficits which will accumulate and where there is no provision for the automatic clearing of those deficits as they arise. So I would say, Mr. Chairman, that this is not a reflection on the way in which the Fund is organized at the Manitoba level.

MR. SPIVAK: Well dealing with the Auditor's letter to you, dated April 17th, he states: "Further to my letter to you dated December 13, 1974" - and I guess that letter has not been filed with us - "concerning the above-noted subject, the senior auditor from my office has now completed a review of the scope of the operations of the CEDF and has submitted a report to me, a copy of which is enclosed for your information." The Auditor's report indicates that the records are mainly not being maintained now in a manner that regular audits could be carried out. Now my assumption, and I think I'm correct, is he's now dealing with the records of the CEDF, not the records of companies.

MR. LOXLEY: This is the letter of April 17th?

MR. SPIVAK: Yes.

MR. LOXLEY: This remark here is relating to the businesses which are borrowing money from the CEDF.

MR. SPIVAK: It's not relating to the actual CEDF accounts - I want that clear at this point - but the CEDF, their own records, their own accounting system?

MR. LOXLEY: No, Mr. Chairman, it's dealing with the accounts of the borrowers. I think in this connection it should be pointed out - I'd like to emphasize again - that the borrowers of the Fund tend to be very very small concerns, often one-man concerns, and like most small concerns they do have record-keeping problems. The issue at discussion here is the extent to which we should attempt to build up formal record-keeping systems for these enterprises, record-keeping systems which even medium to large size businesses frequently like. This is the issue that was being addressed by the Provincial Auditor in this letter, Mr. Chairman.

MR. SPIVAK: Then if I look at the Auditor's letter to you dated November 7, 1974, at least to Mr. Parasiuk, he's dealing now specifically with the Fund's organization as opposed to the borrowers' operations. He said the Fund has not yet developed an administrative manual setting out the policy, organization, administrative and financial controls, procedures concerning its operation. This deals with the Fund now, it does not deal with the companies. The record of the supervision form developed to fulfill the requirements of the Act has not been utilized for all loans. This deals with the Fund. Certain of the agreed loan conditions such as the purchase of fixed assets without the Fund's prior approval and arranging of other loans by the borrower with other parties without the Fund's prior approval were not being fulfilled by the borrowers and these deviations were not being reported to or approved by either the General Manager or the board. Surely this really deals with the Fund's operation as opposed to the - if I may just continue to complete it because I think I want to go further.

Audited financial statements are not being received for most of the loans. This deals with the Fund's operation as opposed to the accounts of the borrowers. Miscellaneous charges to be recovered from borrowers have been billed by letter rather than on prenumbered invoice forms. Information required to update loan ledger accounts is related by various means at present. Our review of the loan indicates that a substantial portion of the loans are in various stages of arrears.

My point being that, in effect, I think it would be fair to say that in the letters that you tabled today, it's not just a reference to the fact that it was not organized on a financial basis based on interest charges and the procedures that the Auditor would want you to undertake, it also relates I think, very seriously, to the organization of the CEDF and its operation and the procedures under which it operated. I'd like to get that acknowledgment because I think that was sort of missed in the presentation. That may have not been delivered but at the same time the letters that you file and table with us obviously I think would draw that conclusion.

MR. LOXLEY: I would like to preface my remarks by explaining my own approach to this meeting. Having had my first meeting of the board of directors of the Fund in April of this year, I don't feel that I'm in a position to answer questions on what happened before my arrival. For that reason I've been leaving these to Mr. Jones.

With regard to the specific question that you raise, I'd like to add that I am aware that these questions were raised, that there have been some problems in the history of the Fund

(MR. LOXLEY cont'd) in terms of developing internal systems. This I think is inevitable with any organization be it Crown corporation, what have you, and that all the time the Fund has been gradually building up its own organization and expertise. So that with regard to only some of these that have been mentioned, the manual, the supervision form, this is now in place and where the debt has been placed. But I think for a detailed reply to your question, I think Mr. Jones is the appropriate person to handle it.

MR. CHAIRMAN: Agreed. Mr. Jones.

MR. JONES: Mr. Chairman, maybe it would help if I just make some remarks in regard to the letter, Mr. Spivak, dated November 7th from Mr. Ziprick. We replied to that letter in great detail.

Firstly, in terms of the administrative manual. I mentioned this morning that is now in place, it was in fact under preparation when Mr. Ziprick came in and did his investigation.

The record-of-supervision form. If I may, I'd like to give you some examples of to what extent this is now used and to explain to you the difficulties the Fund experience in using it.

The comment in paragraph 3 in regard to the contravention of loan conditions. When we wrote back to Mr. Ziprick, we expressed disagreement because we do not on the staff level agree that that was a justifiable comment. If contraventions take place - and inevitably most of these are discovered after the fact - when a financial statement comes in and we analyze it, then we realize perhaps the company has gone out and bought the piece of equipment which we in our loan agreement said they should not do. As soon as this information comes in and is analyzed, it comes to me and I either approve or recommend to the board - certainly inform the board of its taking place. So really in that regard and some of the other things in that letter from the Provincial Auditor, I'm saying that we have undertaken I believe refinement to meet what the Auditor has been asking.

In regard to the receipt of audited financial statements. In every loan offer, every commitment letter that goes out at the option of the Fund, we specify that we must receive audited financial statements. Now in the case of limited companies, this has been followed reasonably closely. In the case of the small individual borrower, it has been extremely difficult not just to get audited statements which are very costly but even to get financial statements. What we are actually doing now unfortunately is going out ourselves and preparing these.

If I may, just for a few minutes, Mr. Spivak . . .

MR. GREEN: Mr. Chairman, just before Mr. Jones goes on I'd like to indicate to Mr. Spivak that we have authorized the Provincial Auditor to audit any statement of any company that has borrowed money from the Communities Economic Development Corporation. We have not agreed that this is a reasonable or possible requirement but we have given him, in writing, authority to do it with any company that he wishes to.

MR. SPIVAK: Can I ask just on that item. Is he now in the process of auditing any of those companies? -- (Interjection) -- No. I'm not asking for the name of the companies.

MR. GREEN: I'm not sure that he is or is not. All I'm suggesting is that I have written. I believe, telling him that we do not mind the Provincial Auditor's office dealing with any of these accounts and auditing them.

MR. SPIVAK: Well on that one point can you indicate - is he now auditing any of the companies?

MR. GREEN: I don't know.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Chairman, at the moment, no. But I understand this is something under active consideration. May I, Mr. Chairman, just add a couple of comments. Mr. Spivak, We did a brief analysis a couple of weeks ago of our most active accounts, the kinds of accounts which the Provincial Auditor's staff came in and looked at most closely and we have 53 very active accounts.

In terms of accountability and supervision, 19 of those accounts, 19 of those businesses are audited by professional chartered accountants, in some cases at substantial costs if you're talking about Churchill for example, it's a very costly business. But 19 are actually being audited by professional accountants.

We have another 11, making a total of 30, which are receiving supervision in terms of recording the usage of funds in the business by the form I tabled this morning. That information is obtained by members of the staff when they go out into the field. That's 30 out of 63 active accounts.

(MR. JONES cont'd)

The remainder, very briefly, four of them are guarantees to chartered banks and the monitoring is undertaken by the bank of that business in addition to what we do.

So I may just emphasize there is really extreme difficulty in some of these cases where we are lending money to individuals. Just an example, a skidder operation, someone who's never been in business in his life, even to get that man to record the basic information for his own benefit, what he's taking in and what he's paying out, in many cases it's almost an impossible task. It requires consistent . . . We have people going up to these people on a consistent monthly basis. They sit down and do the books of the people. They go back the following month; the books aren't up-to-date; so my people have to stay there two or three days to get them up-to-date. This is something quite frankly, I think, that the staff of the Provincial Auditor when they were in the Fund's offices for a couple of weeks, we tried to explain to them the difficulties these people experience. We realize it's an obligation on the part of the Fund to see that this is done but it is extremely difficult.

MR. SPIVAK: I wonder if you can indicate at this point, Mr. Jones, how many civil law suits is the Communities Economic Development Fund involved in at this present time?

MR. JONES: Mr. Chairman, there are 31 accounts in varying degrees of legal process.

MR. SPIVAK: No, I'm referring to civil law suits in which the Fund is the defendant, the Fund as a defendant.

MR. JONES: Mr. Chairman, actually none. There was a counter claim filed against the Fund by one company last year but that - I have the details here if you wish but that hasn't been proceeded with to date.

MR. SPIVAK: I'm acknowledging it's in court. That's the only case in which the Fund is involved in a civil way as a defendant, or in this way, in which there's a counter claim? -- (Interjection) -- No, I'm now dealing I guess with the suit of Redekopp Lumber against either R & M or JMK and the Fund. Is the Fund not a defendant?

MR. JONES: I'm sorry, I was looking on this from the point of view of an account, a company. In terms of that particular company, yes. In the case you've just mentioned, we are a defendant. An Examination for Discovery has taken place. There is another issue with that one too.

MR. SPIVAK: Yes, but are there any other accounts as well in which the Fund is a defendant?

MR. JONES: No.

MR. SPIVAK: Can I ask, the practice of the countersigning of cheques by yourself or by Fund officials. is that practice still being continued?

MR. JONES: Mr. Chairman, we've tried to review our attitude towards this kind of practice because there are problems inherent in it. Nevertheless there are some cases - we've had two most recently - where the banking operations necessarily have to be undertaken in Winnipeg because of the location of the business. We feel, with the agreement of the borrower, that this is a practice in some cases which should be continued.

MR. SPIVAK: Mr. Jones, can you indicate on any occasion whether you as the countersigning official for the Fund or any cheques for any of the accounts, ever had occasion to change the payee and the amount?

MR. JONES: Mr. Chairman, if that has happened or if it does happen, it certainly wouldn't be done without the agreement and the signature of the borrower.

MR. SPIVAK: Well then may I ask, have you ever had occasions to do that with the agreement of the borrower?

MR. JONES: There have been occasions in the past, yes.

MR. SPIVAK: Where you've actually stroked out the name of the payee and stroked out the amount that had been agreed?

MR. JONES: With the agreement of the borrower, yes.

MR. SPIVAK: But isn't it a fact that in many cases they were cheques signed in blank handed to the Fund, to be countersigned by you, in which case the payee itself wasn't even known at the time?

MR. CHAIRMAN: Mr. Jones, I really don't see the . . . We can proceed. Mr. Jones.

MR. JONES: Mr. Spivak, I think we're going back to some issues which were discussed at the committee sessions last year and I have the Hansard in front of me. I believe I said that to my knowledge no cheques were received in the Fund's offices signed in blank from borrowers.

MR. SPIVAK: Were there not cheques signed by the officials of the companies in the hands of the officers of the Fund, maybe not in the Fund's offices, that ultimately may have found its way into the Fund's office. In other words, were there not cheques actually signed in blank, held by officials of the Fund and then ultimately completed by the Fund.

MR. JONES: Not to my knowledge, Mr. Spivak. The practice is that we do receive cheques, a considerable number of cheques under this practice - in the mail or by personal delivery - signed by the borrower. That cheque may be in blank but it is filled in in the Fund's office by the counter-signatory.

MR. GREEN: Mr. Chairman, I really think that if there is something wrong that's been happening, we would like to know. In other words if the Fund has signed a cheque that has been paid out of a borrower's account which he didn't want to sign, we would be interested to know that. But the general question, "Is a cheque signed in blank?" Mr. Chairman, I have to tell you that I have signed cheques in blank for my secretary who has then filled them out and got me the money and she hasn't done anything bad with them. -- (Interjection) -- That's right. Now if there is something bad happening, I would like to know what has happened because we are interested in that as well as the Leader of the Opposition.

MR. SPIVAK: I wonder if I can address a question to Mr. Loxley. I wonder if you can indicate whether any of the accounts of the Fund - that is any of the borrowers and the Fund itself - is under any investigation by the RCMP other than the one or the two that have been completed or are in the process of being completed already?

MR. LOXLEY: It's my information that two accounts are under the investigation of the RCMP. That's the Lamirande account and the R & M Construction Limited.

MR. SPIVAK: Those are the only two that are under the RCMP investigation?

MR. LOXLEY: To my knowledge.

MR. SPIVAK: There was a private audit completed for the RCMP, I guess by Touche, Ross. Is that correct? Was the Fund involved in that at all?

MR. LOXLEY: Pardon.

MR. SPIVAK: Well to the Chairman, there was a private audit undertaken - other than an audit by the Provincial Auditor - undertaken by the RCMP. Was the Fund involved in that audit?

MR. JONES: No, Mr. Spivak.

MR. SPIVAK: Mr. Loxley, I wonder if you can indicate whether matters have been brought to your attention with respect to the accounts of the Fund and the expense accounts of some of the officials of the Fund?

MR. LOXLEY: No, Mr. Chairman, not in any specific terms.

MR. SPIVAK: No reference has been made to you. Has any reference been made to Mr. Jones?

MR. JONES: In what regard Mr. Spivak?

MR. SPIVAK: Well into what would be considered at this point in a general way deficiencies with respect to accounts and deficiencies in its widest form - incorrect accounts.

MR. JONES: Mr. Chairman, I'm not sure whether I understand the question. If I may explain how we deal with expense accounts, staff expense accounts. Is that the . . . ?

MR. SPIVAK: Well let's just talk about staff expense accounts. Have any matters been brought to your attention with respect to incorrect staff accounts?

MR. JONES: Mr. Chairman, to this degree only and we have the treasurer of the Fund who is also the treasurer of MDC present here. Expense claims, in fact all dealings in expenditures of the Fund, are processed through the treasurer, through the MDC. Every cheque drawn on the Fund's account has to be countersigned by the treasurer. I examine claims for staff expenses and approve of them or disapprove of them. They are then sent to MDC.

I would make this general comment that in the early days of the Fund and perhaps until about 18 months ago, two years ago - Mr. Milne is smiling - we originally adopted the same system as was in use in MDC. I used to be in MDC and I just followed suit. Mr. Milne has tightened up very much on the method by which these things are done and we have had some discussions together supporting the claims for expenses for example and now they are very much more refined than they used to be. That's a general comment, I don't know whether I can make any more.

MR. SPIVAK: Well have errors - not errors in the processing but errors with respect to the expense accounts - been brought to the attention of yourself or to the previous Chairman or to the present Chairman?

MR. LOXLEY: No, Mr. Chairman.

MR. GREEN: Again I presume that Mr. Loxley is speaking from his knowledge. Mr. Parasiuk will be here - he can't be here today - but he'll be here and he will answer for himself because I don't want Mr. Loxley to be hung with a statement that might be not correct.

MR. SPIVAK: Mr. Jones, to your knowledge, there has been no impropriety with respect to any of the expense accounts.

MR. JONES: To my knowledge, no.

MR. SPIVAK: I wonder, Mr. Loxley, you dealt with the - or maybe Mr. Jones may have done this, I may have been mistaken - but the question of conflict of interest and the statement by the legal counsellor with respect to the directors. I wonder if you can elaborate a little bit more on that and specifically what . . . just to develop it a bit more because it developed as part of the total argument and I think I'd like to understand the full intent and meaning of it.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Chairman, I perhaps can best deal with that by quoting from the opinion given to us by legal counsel to this extent. "Corporation law is quite clear that the affairs of a company are vested in the board of directors and that directors owe a duty to the company to exercise their discretion in the best interests of the company. Where Fund officials are named directors and especially where Fund officials constitute the majority of the board of directors, it is they who are in law bound to see to the business of the company in the company's interest."

Just one last paragraph. "There is a natural tendency on the part of Fund officials to consider their very job is to secure the loans that have been made to a company and there is a natural inclination to leave the management affairs to the principal shareholders." To that degree, I think, what we are being told is if we continue to use this mechanism we should be very cognizant of the fact that there is potential conflict of interest in terms of the Fund officials as opposed to them being directors of a company and looking after that company's interests primarily.

MR. SPIVAK: Is it not another issue of a conflict of interest with respect to Fund officials that was discussed or with the legal counsel that's in addition to this? Has the Fund not discussed the problems of (a) the loaning to one director at one particular time and the problems of the interest that a director may have in any one of the companies that may have received one of the loans?

MR. CHAIRMAN: Mr. Jones.

MR. JONES: The comments I have just read, Mr. Spivak, are from a review undertaken by Legal counsel on that particular account to which you referred.

MR. SPIVAK: Can you give me the date of that review?

MR. JONES: March 4th, this year.

MR. SPIVAK: March 4th, this year. Was that the only occasion on which there was a review of that particular aspect? Did the counsel not undertake a review prior to that.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Yes. Reviews were undertaken, Mr. Spivak, fairly consistently.

MR. SPIVAK: May I ask you something, Mr. Jones? Did the counsel not undertake a review specifically for the Fund some time ago just basically on the things that you have said and come to the opposite conclusion?

MR. JONES: Well, Mr. Chairman, if I may. I don't - using the word "review" is perhaps incorrect. The Fund's legal counsel, since inception, has been present at all board meetings and if legal advice is required in the format which we use to participate in the business, his advice has been taken.

MR. SPIVAK: Well may I ask though, did he not give you advice which is contrary to the position that you now say you received on March 4th from him?

MR. JONES: Mr. Chairman, I would say no, not contrary, no.

MR. SPIVAK: Well, did he not indicate to you that there was the possibility of being able to loan money to a director provided the loan was placed in the hands of someone else as nominee for the director?

MR. JONES: Mr. Chairman, that's not my understanding of the advice we were given at all.

MR. SPIVAK: Was he consulted with respect to the loan to be given to Willam Lamirande?

MR. JONES: Yes, he was present at the board meeting when the loan was authorized.

MR. SPIVAK: Did he understand at that time that William Lamirande was really a nominee for one of the directors?

MR. JONES: I don't think anyone understood that at the time, Mr. Spivak.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, you know this matter is, as the Leader of the Opposition well knows, the subject of the investigation which is taking place and the information that has been given with regard to that was given last year and is now being subjected to some type of careful scrutiny.

MR. SPIVAK: By whom?

MR. GREEN: By the RCMP.

MR. SPIVAK: The RCMP have completed it.

MR. GREEN: So then . . . deal with it.

MR. SPIVAK: But then who's doing the scrutiny?

MR. GREEN: The RCMP.

MR. SPIVAK: No, they've completed theirs.

MR. CHAIRMAN: Order, gentlemen. If you have some comments I believe it has been indicated that this particular aspect that you're talking about is under the scrutiny of the RCMP. I do not see the matter coming up at this particular time until there is a report. Mr. McGill.

MR. MCGILL: Mr. Chairman, to Mr. Jones. It was during his replies to questions by Mr. Banman, I thought he said that the accounts in which legal action for recovery had commenced that there were 11 accounts. and I just wondered if I had mistaken his reply there. What was the reply that Mr. Jones made?

MR. CHAIRMAN: Mr. Jones.

MR. JONES: No, the 11 accounts. Mr. McGill, I refer to were the accounts in arrears for 60 days or more. There are 31 accounts in process of legal action.

MR. MCGILL: Of those 31 accounts that involve legal action I think they're listed here as accounts in which legal action has commenced. Has any legal action been completed in any of the accounts?

MR. JONES: Mr. Chairman, in some cases yes. In most cases no. I think probably two or three of them have been completed and, for example, assets are being seized and probably are, rather in the process of being sold. But in most cases we're still going through the long exercise because some of these accounts which you have listed, there are loans to treaty Indians and the process of undertaking legal action for assets on the Reserve is rather complex and time consuming. We receive monthly reports from legal counsel on the situation in each one of the 31.

MR. MCGILL: Who is acting as legal counsel for the Fund? Who is your counsellor?

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Weinberg of Norton O'Sullivan.

MR. MCGILL: And of the three actions which are complete or nearly so, has there been any actual recovery of funds by the Fund?

MR. JONES: Yes, there has.

MR. MCGILL: In which specific accounts? Can you . . .

MR. JONES: May I, Mr. Chairman, just have a few minutes. I could ask my staff to go through and mark the ones where we've completed that kind of action and I can supply you with that information.

MR. MCGILL: Fine. Then while that's going on, Mr. Chairman, perhaps Mr. Jones could - I'm interested in one account here called Fort Fashion Ltd. It's listed on Page 2 and again on Page 8. On Page 2, there are loans and guarantees involved there and this has now been written off. Was that a complete loss?

MR. JONES: Mr. Chairman, yes, that was a complete loss.

MR. MCGILL: What was the activity engaged in by Fort Fashion Ltd?

MR. JONES: It was a small garment plant situated on the Fort Alexander Indian Reserve and it was receiving support financially and otherwise from ourselves and from the Department of Indian Affairs.

MR. MCGILL: And there was no recovery?

MR. JONES: There was no recovery at all.

MR. MCGILL: Mr. Chairman, to Mr. Scott. There was a loan guarantee . . .

MR. CHAIRMAN: Mr. Loxley? You were referring to Mr. Scott.

MR. MCGILL: It's Mr. Jones, I'm sorry, a loan guarantee listed on Page 8. Was there a time lapse between the loans and guarantees listed on Page 2?

MR. JONES: Is this in regard to Fort Fashion?

MR. MCGILL: Yes.

MR. JONES: Yes, there was.

MR. MCGILL: Was the activity of the garment factory, did it get into production or did it ever reach that stage?

MR. JONES: Yes, it was in production and in fact during the last three months of its operation - I'm trying to recall something that happened in the early part of last year - they engaged, through the Department of Indian Affairs, a man who would undertake sales across Canada and they were just beginning to reach the stage where they could have penetrated the market. They were making mitts basically and headbands. They were all Indian employees. But unfortunately the degree of capital investment required was such that the Fund's board certainly couldn't see any justifications for putting additional debt financing into it. We tried to encourage the Federal Government to participate by way of grants but they refused also.

MR. MCGILL: The total loans and guarantees seem to amount to roughly \$110,000. What purchase of machinery was involved here? Some of that money must have gone into machinery for the operation.

MR. JONES: Mr. Chairman, I don't have the details in front of me of that account and I'm speaking very much from memory but the proportion of the moneys advanced by the Fund into fixed assets, as opposed to working capital, was quite small. I believe it was about \$20,000 for machinery because the machinery was extremely old. The major portion of our commitment was for working capital, for inventory purposes and for wages.

MR. MCGILL: I believe I understood you to say, Mr. Jones, that there was no recovery of . . .

MR. JONES: That's correct.

MR. MCGILL: What happened to the machinery? Admittedly it didn't amount to a very large percentage of your total involvement here but was there not any opportunity to recover from the machinery that was used by this company?

MR. JONES: Mr. Chairman, this was rather a complex situation in terms of the financing package because the company received a loan and a grant from the Department of Indian Affairs and the security for the loan from the Federal Government ranked ahead of the security for the Fund. The recovery I understand - and again I'm speaking from recollection and if you wish I can come back with the specific details - I gather that the actual recovery to the Department of Indian Affairs, as the first secured creditor, was somewhere in the region of \$4,000 to \$5,000.

MR. CHAIRMAN: Possibly it might be advisable to take that question as notice and provide the information, correct information, the right information at the next sitting of the Committee. Mr. Jones, do you have that information that you asked your staff to look up?

MR. JONES: In terms of completed legal action, if I may just give you some examples. On Page - I'm using a different sheet, sorry. There's a loan here to Oliver Ferland of Camperville and the outstanding balance as at April 30th is recorded as being \$39,125. That store has been sold. There will be a shortfall, in terms of the moneys coming in from the purchaser, shortfall to which the Fund will be exposed to the extent of \$13,000.

In the case of a loan to Mr. Halcrow of Cross Lake of \$7,500, we've been able to complete the necessary legal documentation to seize the truck. The truck has been sold. Now I would like to - if you wish - take this, the precise amount, on notice as well. We have recovered I believe about \$2,500 of the \$7,300.

We could go through or I could supply the Committee, if the Committee so desires, the complete details of all these actions. But it's a little difficult to - I would rather not speak from memory, quite frankly in terms of the amounts recovered. But there are nine cases which we record as being under legal action where the legal action has been completed.

MR. CHAIRMAN: Is it the desire of the committee to have this information provided in written form at the next meeting?

MR. MCGILL: Mr. Chairman, I think that would be helpful. To Mr. Jones, in the case of the one account, the Ferland store which was sold, was there any financing provided to the purchaser by the CEDF in this change of ownership?

MR. CHAIRMAN: On Page 3.

MR. JONES: No, Mr. Chairman, no. The purchaser obtained his financing elsewhere.

MR. MCGILL: And I understand then that the net loss after the recovery - the Fund made was \$13,000 roughly.

MR. JONES: No, there's a shortfall at present of \$13,000. There are receivables, uncollected receivables of \$6,000. We have grave doubts as to the collectability of those. But the Fund, in its normal process, will proceed with legal action against Mr. Ferland. To what extent we will recover a portion, substantial or otherwise of that 13, it's difficult to tell at this moment.

MR. CHAIRMAN: Mr. Johnston.

MR. GORDON JOHNSTON: Perhaps some of my questions would be addressed to Mr. Loxley. I note in examining the Annual Report which is over a year old now that there's no list compiled of the number of applications made for loans and how many were turned down and how many were accepted such as the MDF - I believe they do this. They list the applications and the ones who are refused, the number who are refused, the number that were withdrawn by the other party and the number accepted. Do you have that information?

MR. CHAIRMAN: Mr. Loxley.

MR. LOXLEY: No, Mr. Chairman, I personally don't have the information on the number of applications. The procedure so far in the Fund is that the management deals with those applications which, for a number of reasons, are not serious or are not worth pursuing. This information is not forwarded to the board.

MR. G. JOHNSTON: Well does the organization have the information at all, Mr. Jones?

MR. LOXLEY: Yes, Mr. Chairman, that information would be available in the Fund.

MR. G. JOHNSTON: Because what I'm leading to - and I know the philosophy behind the board is admirable, that the Fund has to take more risk naturally if they're going to help people who have never been in business before - but I want to know how the board investigates a person who has made an application - or a corporation. In other words, are there turn downs and what reasons? Does the board examine the credit rating of a person or a corporation? Does the board do some in-depth checking before the loan is granted?

MR. CHAIRMAN: Mr. Loxley.

MR. LOXLEY: The procedure that the board follows is to look at the financial, managerial experience type background of the applicant, to look in detail at the proposal that is being put forward not only from a commercial point of view, i. e. covering the marketability of the product, the availability of raw materials, the financial flows inherent in the project, in other words look at the profit and loss of the project and the cash flow is something quite different sometimes, to see whether or not the applicant can sustain the amount of debt that is being required.

Not only does the Fund look at that, the Fund also attempts to look at the broader implications of the project on the community in question. This is provided for in the Act and an attempt is made to do that. This can't be done in very scientific terms but in general we would need to know the number of workers to be employed; we'd need to know the type of a business, the number of alternative outlets in existence in the same locality and we would need to know whether there are any pressing social reasons for the project even if the financial performance is not looking too good. So, Mr. Chairman, this is the kind of information that we request.

But I would like to emphasize that we are dealing here with small borrowers, with relatively unsophisticated borrowers generally, borrowers who don't have professional background, who are not capable often of presenting financial statements in a way that large companies can. So there is quite a considerable onus on the staff to sit down with these people and get this information from them. Then the judgment of the board is therefore to a large extent based upon the information that is forthcoming and the experience of the various board members.

MR. G. JOHNSTON: Can the information be supplied, the number who have applied and the number who have been refused for each year as to . . . ?

MR. LOXLEY: Yes, Mr. Chairman, we will undertake to supply that information.

MR. G. JOHNSTON: I note that in the affairs of one company or one individual that was discussed this morning, it's been noted that loans have been made to either individuals or companies who have already been involved with grants or loans from the Department of Indian Affairs, either before or after. Do you think this is a very wise policy to have two lenders, two levels of government lending?

I detected a note in Mr. Jones' voice that - I don't say of blame - but he said that the

(MR. G. JOHNSTON cont'd) Department of Indian Affairs wouldn't give a grant to the group at Fort Alexander, Fort Fashions. It seems to me that there should only be one lender involved, not two levels of government because the tendency is then to leave it to the other or place the blame on the other. What do you think of that?

MR. LOXLEY: Mr. Chairman, I think in an ideal situation from the point of view of perhaps both the client and the borrower, it would be nice to have one lender to borrowing organizations. Now unfortunately in practice it's not that straightforward. We have two levels of government; we have different lending organizations, we have different terms on which they can advance money. Now in particular - and I think this is worthwhile emphasizing - the CEDF does not have the power to advance grants, to give grants, whereas in the federal structure, there are organizations which can do that. So it does make sense for the CEDF to co-operate with organizations like ARDA on a grant and a loan basis. So that would be one consideration.

Another consideration is that different lending organizations have different limits which they can apply in their own minds, either legally or in terms of the way they see their business, to any particular borrower. So that often borrowers do have to shop around for funds and I think that this is realistic and it's reasonable for the CEDF to assist on the merits of each individual project.

Finally in the CEDF we do like to see borrowers take as much as they can from, for instance, private lending institutions. I don't think it's ever been the intention of the CEDF to try to replace private lending institutions. So generally I don't see or we don't see - speaking for the board - any problem in doing this provided that both parties or the parties involved are working on similar assumptions, so they both share the same view of the feasibility of the project. Because if they don't then problems can arise. For instance, when the borrower comes back for additional financing, and they may come for loans when a grant is required. So I think that what is required here is coordination and co-operation between the various institutions. We have this with the chartered banks; we have this with other lending organizations. I think this is a perfectly acceptable state of affairs given reality.

MR. G. JOHNSTON: Yes, Mr. Chairman, I turn now to the letter written to Mr. Parasiuk of November 7 from Mr. Ziprick. The Leader of the Opposition has commented on it and elicited some responses from both Mr. Jones and Mr. Loxley. But I understand that a letter was written in reply stating what the Fund had done. I wonder if Mr. Loxley and Mr. Jones could take us through this letter, point by point, and tell us what exactly has been done to alleviate each of the six problems that are enumerated and also there has been recommendations made.

Now the first one - I believe that the answer has already been supplied, that you have an administrative manual setting out policy organization and administrative and financial controls, etc. I wonder if we could have a copy of that manual?

From then on I would suggest that one of the two gentlemen respond to all the points in some detail as to what has been done to correct what the Provincial Auditor considers to be deficiencies in the operations of the CEDF.

MR. HENDERSON: Mr. Chairman, on a point of reference. The Honourable Member from Portage has a very detailed question and I realize it's going to lead into a different field and I'd like to ask one question from Mr. Jones before he goes into that if it's okay.

MR. CHAIRMAN: Is that agreeable with Mr. Johnston.

MR. G. JOHNSTON: Yes.

MR. HENDERSON: When a company goes into bankruptcy and you foreclose and then you go to dispose of the assets, how do you do it, by tender or do you put them up for auction or how do you dispose of the assets?

MR. JONES: There are many routes we can take and the normal process is the tender process. If we're dealing with a situation where there's a receiver appointed by the courts then of course he has the responsibility for doing it. If we're dealing with a situation - for example we have one here listed where we financed a truck on an Indian Reserve in the North, a very remote community where the costs involved of getting the thing out firstly are phenomenal. If we have an opportunity in the field in that particular reserve for example, to sell there, then we take that route but the normal process is the tender process.

MR. HENDERSON: Yes, in that case where you would sell that truck, would you advertise it in some paper? Would there be some posters be put up or how do you get about that type of a sale?

MR. JONES: Yes, we advertise.

MR. CHAIRMAN: Now the questions put forth by Mr. Johnston. Are you prepared to proceed with that, Mr. Jones or Mr. Loxley? Mr. Jones.

MR. JONES: Point 1 in the letter, Mr. Johnston, I think you'll agree has been answered, and we will supply you with a copy of the manual.

Point No. 2. The Provincial Auditor made a comment that the Record of Supervision form which we tabled this morning to show you what it contains, he says has not been utilized for all loans. What we've done since this letter came in, since the Provincial Auditor made that comment, is to try and adapt it to every loan we have got. I explained to Mr. Spivak that in many cases this is still an impossibly hard task because, as I said, if we are dealing with some people who have basic difficulty in maintaining records, as much as we try and as much as we know we have to succeed in it, at the moment we do not have Record of Supervision forms for every loan. Now that does not mean to say though . . . I think the point Mr. Ziprick was getting at here it's not so much the use of a specific form but rather so that he could come into the Fund, pick up a file and see that that account and that business has been and is being monitored correctly.

If we've not been actually able to use that form itself, which is the ideal format to see how much and what the man is doing with his money in the business, then we use other means. It may be done by means of a memorandum to myself. But the information which I related back to Mr. Ziprick in reply to Point No. 2 was that the information, generally speaking, is on file in the Fund.

MR. G. JOHNSTON: Mr. Chairman, just a question at that point. You stated earlier that in order to both help the person who's the borrower and also to protect the interest of the Fund, you've on occasion had to have one of your staff for one or two or three days helping the person with bringing his accounts up-to-date. Do you make a charge for that? In other words why should the good borrower have to pay or help subsidize someone who is being helped with help that the good borrower doesn't receive?

MR. JONES: Mr. Chairman, I agree there is anomaly there but no, the Fund does not make a charge. It's considered by the Fund to be frankly part of the service of our management service staff. We do not have a budget for that kind of expenditure.

MR. G. JOHNSTON: Well it seems to me that if the Fund's philosophy is to encourage people to make it on their own that something could be done in that area. That if they don't do it themselves then they will be charged for it. I think it would help if the borrower found it was going to cost him a few hundred extra every year for someone else to do work he should have been doing.

MR. LOXLEY: I'd just like to comment, Mr. Chairman, that we shouldn't lose sight of the fact that these businesses are operating normally on very slender margins and that it is in the interests of the Fund and in the interest of the province to give as much managerial accounting support as is possible. This we would feel is a legitimate charge to be borne by the Fund. As part of its very broad terms of reference with regard to development, the Fund is charged to assist in the development generally of communities and of businesses, not simply to get profit and loss or to be self-sustaining on account of services rendered. The view of the Fund would be that as a general rule most of these companies would not be in a position to fully pay for the kind of advice that they require and that this would be quite a legitimate charge to be borne by the Fund.

MR. CHAIRMAN: Any further questions, Mr. Johnston?

MR. G. JOHNSTON: No.

MR. JONES: On Point No. 3, Mr. Johnston, where Mr. Ziprick comments on contraventions to loan conditions. In my reply to him I had to express disagreement with their . . . As I said, in many cases if not most cases, these contraventions aren't observed until after the fact, until we see the financial statement primarily. If you look on one section of this Record of Supervision form, which was the last piece of paper tabled, you will see that on that form we show the sources of money for the period under review, the uses of money; underneath there are comments which are to be made by members of the staff completing the form in terms of any significant contravention of terms and conditions of the loan. If there have been contraventions, then they are recorded here - precisely what the contravention is. If the man has gone out and bought a truck without getting prior consent of the Fund, that is recorded. If it is considered serious in terms of possible jeopardy to the earnings of that business, then he is first of all remonstrated very strongly.

(MR. JONES cont'd)

Secondly, I should make it very clear that this is presented. This analysis is presented to the directors at their meeting so that they also see what is happening to an individual business. There are many occasions when contraventions take place which frankly could be considered to be in the normal line of business and although we record them, we don't necessarily consider them significant enough to warrant, you know, remonstrance or any other action. We could technically, in terms of our loan agreement, call the loan, if the contravention is serious enough. But Mr. Ziprick made this comment because one of his first tasks in his investigation was to look at the kind of commitment letters we issued where we say very clearly that without the prior consent of the Fund, you will not, you shall not do certain things. Now ideally any move that any businessman makes who's financed by the Fund, he should come to the Fund, to the Fund's board and say, "I want to buy some equipment. May I please have your consent?" And this is happening.

So perhaps in conclusion on Point No. 3, I should say that that aspect is being considered very seriously. To this extent also, I think we've been a little bit too arbitrary in putting conditions into our loan agreement without really taking into account the kind of experiences a businessman faces. In other words, we perhaps have been a little too tight on these conditions. The Fund has certainly taken note of what Mr. Ziprick has said but, as I said, I have some disagreement in that comment.

MR. G. JOHNSTON: Mr. Chairman, I think a year or so ago another financial institution seized a truck I think it was, or a number of trucks, that had been financed by one of your loans. Has that loophole been plugged? That can't happen any more? In other words the person who had the vehicle used it as security for another loan.

MR. JONES: Mr. Chairman, legally that loophole never existed. If we have a prior charge on fixed assets, legally there is no way that that should happen without our being made aware of it. Unfortunately when these actions are undertaken in the field, even if it's caught three or four weeks or three or four months later, unfortunately it is already done. We have plugged it to the extent that we now make it crystal clear to these people when they are getting loans that they will not, under any circumstances, attempt to charge assets charged to the Fund without our consent. But that is the limit to which we can go.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: I want to make one comment, as I listened to Mr. Jones - and I think it should be made now, it's rather appropriate with respect to what has happened.

The Provincial Auditor has recommended that departmental managers appear before the Public Accounts Committee and to deal with both his report and explain their particular situation. I think that the way in which we're operating is not satisfactory because I think in this particular situation it would be advisable for the Legislature through one committee or the other - and I think the Public Accounts Committee would probably be the most appropriate one - to have at that point the Provincial Auditor present with the directors, in this case the General Manager of the CEDF and the officials.

My point being that we're then in a position to understand the nature of the problem areas and to be able to establish for our own satisfaction that what is taking place is proper and in the best interest of the people of this province. But further that the differences of a position - because there obviously are some differences of position - between where the Fund and the Provincial Auditor at least are brought to light before a committee in which both points of view are brought forward and then whatever recommendation would come from ourselves as legislators would be able to be made based on sound advice. And I would make the comment because I believe that what we are now dealing with is a very difficult matter to deal with without the Provincial Auditor present, and without the ability to have his comments. His comments were very general with respect to his report. They did not give us some of the specifics that are provided by selective - and I don't mean that derogatory - but selective letters that have been produced for this Committee. I don't know what other letters have been produced for this committee and I don't know what they would contain but obviously there has been some work that has been undertaken as a result of the review that's taken place. And our responsibility, particularly our responsibility in Opposition, is to highlight those areas of concern and if there's going to be a check and balance for the public interest, to be able to insure that that is being undertaken.

Now there's one area that's not covered here, Mr. Jones, and I'd like to put it to you

(MR. SPIVAK cont'd) because it's an area in which there is, I think, a legitimate concern by a number of people who have dealt with and are dealing with the enterprises that are financed by the CEDF. That is the degree of representation that has been made by your officials of the government involvement and of the government support to, in a sense, provide the credit for the undertakings financed by the CEDF and particularly the extension of credit during the period of time of difficulty. We have a number in receivership, we have a number who are in arrears . . .

MR. CHAIRMAN: Mr. Spivak, I don't believe you expect that Mr. Jones will be answering those questions in the general comments . . .

MR. SPIVAK: Well I think he will. I want to talk to him about this because I think this is a problem area of the Fund.

MR. CHAIRMAN: Still, you're discussing policy and I think you should direct it to the Minister.

MR. SPIVAK: No, I'm not discussing policy at all. I'm discussing the actual facts of what has happened.

MR. GREEN: Mr. Chairman, yes, I would be interested to know what creditors were given assurance that they were standing with regard to these funds, to people who have borrowed money from the CEDF in any different way than they stand to any other person who is in business because that is not the policy. I expressed that in the House several times, that they do business with these companies in the normal way. The government is not obliged to bail the companies out if they go bad, and if that has happened, then I would be very interested to know where and when.

MR. SPIVAK: All right. You know the enunciated policy of the government is there. I am now asking Mr. Jones, and I want . . .

MR. GREEN: Well if you have information that that has occurred, I would be very interested to know it.

MR. SPIVAK: No. You know, Mr. Chairman, the problem at this point is, you know, the posture that's taken here. I am saying that I want to be in a position to ask Mr. Jones whether creditors have come to him . . .

MR. GREEN: Okay.

MR. SPIVAK: . . . and have said to him that, you know, we believe and have reason to believe that the extension of credit that we were given would at least be either wholly or partially supported by the government as a result of the representations made to us that the government was involved.

MR. GREEN: Fine. That's a good question.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Chairman, yes, there have been many cases where creditors have either come in or telephoned and made representation in the manner, Mr. Spivak, which you've just suggested to the extent . . . Okay. The CEDF - we are aware of the fact it's financed this particular business and on that basis we, as businessmen suppliers, have supplied it with credit. I do not agree though that the Fund, certainly not the Fund itself, has ever guaranteed to suppliers, to businesses that their credit would be good.

Now I think perhaps where you mentioned earlier on in the meeting a particular issue, a civil suit, and if I may just refer to that one. That was the case where a letter was written by the Fund to that particular supplier saying that the Fund - yes, we had a letter in and we replied and said, yes, the Fund, with a concern to the borrower - is supplying this company with financing but that the loan cannot be dispersed because the security is not in place. That is one issue that I can recall very specifically where we recorded in writing the situation of the Fund's financing.

MR. GREEN: That is in court.

MR. JONES: That is in court.

MR. SPIVAK: But, Mr. Chairman, I want to, you know, make this very clear distinction. With respect to a bank who would loan money and who may be contacted by a particular creditor, that's one particular kind of situation. But the Fund is in a very different position. They have loan officers who are out there trying to support marginal situations, trying to support situations that may very well be in difficulty or on the verge of bankruptcy and in the course of doing that they, in turn, are dealing with creditors as loan officers. Again I put it to Mr. Jones, is it not a fact that many people have said to you that as far as they were concerned,

(MR. SPIVAK cont'd) as a result of what was taking place, they had reason to believe that the extension of credit or the accommodation that was given was given on the basis that the government would be supporting it? Now is this not a claim that has been made to you on many occasions?

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Yes, Mr. Chairman, that claim has been made on many occasions. If I can refer again to the specific one which we referred to earlier today, the store in Camperville. We've had people calling us consistently saying that, you know, this man is borrowing money from the Fund, we understood that you would be paying the bills. This just is not correct.

Now there are other cases, Mr. Spivak, there are other cases for example where businesses are starting up. We have two right now that are in the process of just being developed. Now in cases like that if the people are involved in a remote community, we do have a loan officer who will make arrangements with people who supply restaurant equipment for example, and with the authority of the borrower that man will go to the suppliers, like equipment suppliers, and say yes, the Fund is financing; yes, would you please arrange delivery. But this is done with the specific agreement of the borrower. I think this is rather a different connotation from . . .

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I would want to know, I would want to know if the Leader of the Opposition has information, I would want to know whether any of our loan officers or any of our people told any supplier that he doesn't have to worry about his account because the Fund is supplying the money. Because that is certainly contrary to my understanding as to how the Fund operates and if that happens I would like to know about it. If he has cases, I would like to know about it. I know that lots of creditors will say that we expected to get paid by the government because they will say anything when they don't get their account paid. But I would like to know whether that has been represented to them and if it has, they may have a good suit against the CEDF and that's something that they would pursue.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Well, you know, the question at this point is - and I'm questioning Mr. Jones and there'll be an appropriate time for me to be able to deal with this not in this committee and I intend to - I just want to get his position on this thing and I think I'm entitled to do that. I have asked him the question; he has indicated creditors have come forward. Then it's his position upon his investigation - and the former chairman is not here and the question would then be put to him - and insofar as they are concerned, they have investigated this matter and they are satisfied that the representations of some of the creditors that have been made to them are not correct. The officials did not represent that in effect the government was involved or did not necessarily represent verbally that they were but by their actions . . .

MR. GREEN: Oh, well . . . what does that mean?

MR. SPIVAK: I'll tell you what it means. It means that when an official of the government brings a creditor the cheque for the company, it means that when he, by his actions, is involved in the commercial transactions of a company that's in trouble - as part of this assistance program - that it becomes very difficult to distinguish the roles with respect to a company supposedly independent and a company in which the government has some proprietary interest both as a motivator of the company - because I have to use that terminology as well as a lender. And I think that there is a problem and I say this to the Minister, he may not be aware of it, there is a problem in this.

MR. GREEN: Well, Mr. Chairman, I would say the problem is with the businessman who is lending money without finding out who's paying. He is more unsophisticated of the business. . .

MR. SPIVAK: Well, all right. In how many cases, Mr. Jones, have the loan officers of the CEDF taken a cheque or on how many occasions have cheques been mailed directly from your office to creditors on behalf of companies?

MR. CHAIRMAN: Mr. Jones.

MR. JONES: On many occasions. I can't recall specifically, Mr. Spivak. Also some of these officers in some of these businesses, they are deeply involved, they're very close to the business activities and if it's only in terms of assisting usually in the beginning, if it's a question of coming back to Winnipeg from somewhere, Anama Bay or somewhere, and an account in Winnipeg has to be paid, the officer has come in with the cheque. I can think of many instances that . . .

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, why by actions does that show that the Fund is on the risk? There are numerous times when a mortgage company will send out payments, rather than sending them to the borrower, they'll send them to the . . . perhaps their lawyer will send them to the other lawyer who will mail them to the clients, all in trust, because that is what the money is advanced for and they want to make sure that that is what is paid. But then the person who has been the supplier has no right to expect that from now on he will be paid by the government. And he should know his affairs well enough to know that.

MR. SPIVAK: Mr. Chairman, to Mr. Green, I would make this point. That where you have companies that are marginal in the sense, both in their entrepreneurial ability and are involved in a remote area which creates another problem, are involved because their financing is such that it is marginal to begin with or in difficulty and we've acknowledged that there are several. you know a substantial number that are in difficulty of one type or another. the involvement of the CEDF and its loan officials in providing the cheques. in dealing with the accounts, I think puts it in a very different kind of position than the mortgage companies and I say that to you very directly.

MR. GREEN: Well I don't agree.

MR. SPIVAK: Well you may not agree . . .

MR. GREEN: But I would like to know if any loan people or the Fund has given a supplier to understand that the Fund is on the risk and if that is the case then that will be certainly dealt with. Because that is not the understanding that I have of the Fund.

MR. SPIVAK: Mr. Chairman I have to say to the Minister that I have watched for almost a year how the government has dealt with the problems that were brought up in this committee in the past and in the Legislature, and I'm not satisfied that the undertaking by the Minister would ever be accomplished. I . . .

MR. GREEN: Mr. Chairman . . .

MR. SPIVAK: I say that. I think that the performance at this point is such that as much as he would like to believe that his undertaking should be sufficient, I don't think it can be accepted on the basis of what's taken place.

MR. GREEN: Well. Mr. Chairman, I have watched for over a year the manner in which the Leader of the Opposition has dealt with this Fund and I have to say, Mr. Chairman. that I am not satisfied that the members of this committee or the majority of the members of this committee or the public are in any way satisfied that the way he is dealing with it leaves anything for the public to understand that his way of proceeding should be accepted or be satisfied with.

MR. SPIVAK: Well. Mr. Chairman. you know we have a perfect example for this. We had a Receiver's report on Schmidt Cartage that had been forwarded by the then Chairman to the Attorney-General and the question was put in this committee as to who owed the shares of a particular company and he said we haven't received the Receiver's report. Now how can we deal with it at that point?

MR. GREEN: Mr. Chairman. on a point of privilege. The fact is that that was not the answer that was given. The answer that was given and the question that was put have been, you know, thoroughly canvassed and everybody has a right to take their position on it. The question was asked. the amount of involvement that Mr. Thompson had with the company and the answer was - and I'm paraphrasing it because I can't remember it exactly - "I am not sure, that is presently under investigation. I have received no reports from the Receiver and I am waiting to hear from him." That was with respect to involvement. At that time the Chairman, he acknowledges that he had an interim report but it was not with respect to the extent of involvement of Ben Thompson in that company.

MR. SPIVAK: Well what Mr. Green has said is that everyone is taking their position on it.

MR. GREEN: No. I am not. I have said that that has been thoroughly canvassed . . .

MR. SPIVAK: I'd like to be in a position to finish my remarks. Mr. Green has taken his position and then that will be his position on the explanation. And I would think that for every debating point that we have there will always be positions taken by every side. But I, at this point, am suggesting that based on what I consider the track record of the government. the undertaking that Mr. Green has given is something that I'm not prepared really to accept. And he can say accordingly with respect to myself.

MR. GREEN: Right.

MR. SPIVAK: But Mr. Jones has acknowledged that creditors have in fact brought this to his attention. I assume - and he hasn't said that directly and I just want that for the record - that he is satisfied that as a result of his investigations that this isn't so and we'll see what the course of events in the next period of time will be as to whether that statement will stand or not. I'm assuming that that's his statement. That's really what I would like as an acknowledgement from him, that he has investigated and he is satisfied that it isn't so.

MR. GREEN: I would like to know from Mr. Spivak or Mr. Jones whether the Fund officers have done anything which he believes have given creditors reason to believe, has put the Fund on the risk for the extension of unlimited credit by the government.

MR. CHAIRMAN: Mr. Jones.

MR. JONES: Mr. Chairman, to my knowledge, no. I tried to explain, Mr. Spivak, the exceptions to the rule and I have a case in Grand Rapids right now where it's a marginal business. The Fund approved some additional assistance to working capital and the reason for approving the money was to insure that this business would operate during the summer months. Now in that particular case - and I think it's a good example of how we operate - the commitment, the approval was made on a Thursday. To get the supplies - it's a lodge so there are supplies of food and so on - into this area, early enough to get this man going, was undertaken with the authority of the borrower by one of our officers dealing with suppliers in Winnipeg. Now in cases like that, yes, the Fund has said to these suppliers, the Fund has made a loan; would you please undertake this order; would you please send the invoice to the Fund. Now those are specific cases and there are other cases, Mr. Spivak, where that kind of action has been undertaken. In terms of the more general approach to this think, to my knowledge we have not, under any circumstances, misled. In fact, I would be extremely angry if any of my staff have deliberately misled creditors to understand that money would be forthcoming from the Fund.

MR. SPIVAK: I wonder, Mr. Jones, if you can indicate whether the RCMP, with respect to the investigation of the matters that they have undertaken, had discussed with you - and we don't have the Chairman here so we can't ask him - discussed with you this problem area. the problem area of the representation to creditors of the position of the government.

MR. GREEN: Mr. Chairman, I am not going to ask the Chairman of the Fund or other people to detail their comments vis-a-vis the RCMP and the investigations that they have done. That is something that is not normally dealt with.

MR. SPIVAK: Then I would put it this way. Can Mr. Jones indicate whether this matter was raised by the RCMP?

MR. CHAIRMAN: Mr. Spivak, I believe that that is a matter that is not for the committee.

MR. GREEN: If it's . . . I suppose it will be dealt with.

MR. SPIVAK: Well I don't know whether we can say it will be dealt with, Mr. Chairman, because it's in the hands of the Attorney-General and as far as I can see . . .

MR. CHAIRMAN: That is right. It is not before the committee. Mr. Dillen.

MR. DILLEN: Yes. Mr. Chairman, I don't believe that we're going to get through the page by page report on this occasion and that we'll be coming back. What I . . .

MR. CHAIRMAN: I would not assume that, Mr. Dillen. We can proceed with your questions.

MR. DILLEN: I want to question the Chairman of the Board if he has made any comparisons between other provincial lending institutions as it applies to . . . On the one hand, the Manitoba Development Corporation makes loans, for example, to what can be considered in the Province of Manitoba as some of the most sophisticated businessmen that there are, and in the case of the CEDF, we are dealing with people who are primarily of native and remote communities, who for the most part are not sophisticated. whether we can make a comparison between the repayment percentages in the activities of the CEDF as compared to the MDC. Further to that I would, if the information is available to you, could you also make a comparison between the activities of the CEDF as it applies to the unsophisticated, to the activities of the Manitoba Agricultural Credit Corporation and draw a comparison as to how the history of the Fund compares with the history of the MACC and the MDC.

MR. CHAIRMAN: Well, Mr. Loxley, I don't know if this is a question that should be directed at this time but if there is a comparison that you're able to make, proceed.

MR. LOXLEY: Thank you, Mr. Chairman. The comparison that I have made is not between the CEDF and other lending organizations in different fields lending to larger businesses,

(MR. LOXLEY -{cont'd} more sophisticated borrowers. The comparison that I would make is between the CEDF and similar organizations elsewhere lending to similar kinds of borrowers. Based on my experience - not in Canada but elsewhere - the CEDF's performance compares very well given the fact that the CEDF is lending not to large co-operative groups, which reduces the cost of borrowing and which also in many cases helps to secure repayment, but given the fact that it's lending to small individuals with all the monitoring problems that that entails, the performance is very reasonable indeed. In some cases the bad debt performance goes as high as 50 percent and over, in other countries.

MR. GREEN: Perhaps Mr. Loxley's experience in other areas should be compared with this. Would you consider that in under-developed nations which you have had experience in and the people in those areas and the attempts to generate some mainstream activity on the part of these people in Tanzania for comparison, is a valid related type of activity?

MR. LOXLEY: I think that based on my experience in East Africa, one has to be careful to compare like with like. There have been considerable changes in Tanzania in recent years which made a comparison difficult. But in the earlier stages of development lending in Tanzania, when a similar organization to the CEDF was attempting to give this kind assistance - and this goes back to colonial times, way back to 1940-odd and onwards - the bad debt performance there was atrocious and yet the problems are very similar. I think the degree of monitoring which goes on in the CEDF both at the management level and the board level, and the amount of information that we require, is generally well in excess of that which was normal at that time certainly in Tanzania. This I think should also be borne in mind, that the CEDF is highly centralized, that the staff are remote from the borrowers. That again is a difference that one would expect that this would lead to even less control. So my own personal feeling as a relative newcomer is that the performance compares very well.

MR. CHAIRMAN: Mr. Johnston.

MR. G. JOHNSTON: Mr. Chairman, it's 12:30 and I wonder if I can have the understanding that when we meet again that we were discussing the points in the letter of November 7th and we are on Point No. 3. I don't mind other members getting in on each point, that's quite all right. But the last two conversations had nothing to do with it and I don't mind that but when we meet again can we come back to Point No. 3.

MR. CHAIRMAN: Fine. Is it agreed that . . . of course we're not finished so the committee will be meeting again at the call of the House Leader. Committee rise.

Mr. Parasiuk has indicated that he will be present to answer any questions pertaining to his period of time as Chairman.