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***Levels Of Government Support In Nwt  
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LEVELS OF GOVERNMENT SUPPORT IN NWT  
FISHERIES

Sector: Fisheries

3-14-57

Analysis/Review

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**LEVEL OF GOVERNMENT  
SUPPORT  
IN NWT FISHERIES**

**DRAFT**

**RT & Associates  
January 1994**



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## Introduction

In this paper we examine three areas related to fishery development in the NWT: the level of government investment in fishery development; the focus of government investment in fishery development; and the extent that government agencies and departments monitor and evaluate fishery developments in the NWT.

As will be shown, aside from DFO, government investments in fishery developments in the NWT have been increasing since 1991, with investment primarily made in the **Baffin**, and to a lesser extent the Keewatin and Great Slave Lake fisheries, but little in other fisheries. As well, government investments in fishery development have been targeted primarily at two fish plants (**Pangnirtung** and **Rankin Inlet**) and test fisheries with little invested in individual business development. More importantly, government investments have not been evaluated in any comprehensive way. This suggests that government investment in NWT fishery development is generally uncontrolled with policy makers lacking adequate information to properly know if goals and objectives, both from a government perspective and client perspective, are being met.

## Level of Government Investment

In the last five years (1988-93) the territorial and federal governments have invested considerable funding in support of commercial fishing development in the NWT. Funding has included Department of Economic Development and Tourism (**ED&T**) freight fish subsidies; ED&T contributions to fishermen to purchase boats and motors, gill nets and other equipment; and ED&T contributions to fish buyers for feasibility studies and/or to expand fish plants. In addition, through the Economic Development Agreement (EDA) there has been joint federal-territorial **funding** for test fisheries and, through the Department of Fisheries and Oceans (**DFO**), provision of inspection services, economic analysis, hydrography, physical/chemical science research, biological research, fisheries

habitat management, and capital support to expand or improve infrastructure such as docks and small craft harbours. More recently, through the NWT DevCorp (DevCorp), the GNWT has also provided support to commercial fishermen by establishing fish plants in Rankin Inlet and Pangnirtung that have created (at least in the case of the Pangnirtung fish plant) new and expanded markets for fish products.

In regards to DFO, department officials have indicated that from 1987 to 1992 DFO investment in NWT fishery development, as measured by the department's average annual operating and capital budgets, have been respectively \$5 million and \$574,000 per annum or a total of almost \$5.6 million per annum. The same officials also indicated that although DFO operating and capital budgets appear constant this masks a general trend of declining A-base budgets that are, and have been, the principal source of funding for DFO services in support of NWT fishery development. Officials believe that with current federal government fiscal restraint measures it is likely that DFO will have less funding available and cost-recovery mechanisms will become the pattern for future NWT fishery support.

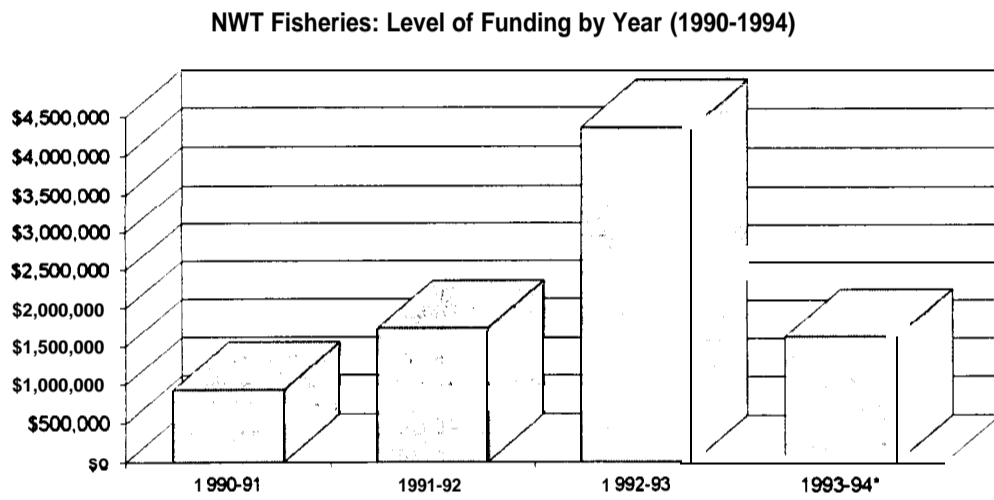
In contrast, other government sources including ED&T's fish freight subsidy and Business Development Fund, EDA and DevCorp have collectively increased their annual investment in support of fishery development in the WT. As shown in Figure 1, in 1990/91 government investment from these four sources totaled \$935,676, then increased in 1991/92 to \$1.7 million and in 1992/93 to \$4.3 million. Although in 1993/94 investment from these four sources declined to \$1.6 million, this amount represents only a portion of the expected government investment for 1993/94. On average, government investment from these four sources over the last four years has been approximately \$2.2 million per annum.

If we add average annual DFO A-base and capital budgets (\$5.6 million per annum) and support from the above four government sources (\$2.2 million), then total government investment in support of commercial fishing in the NWT has been an average of \$7.8 million per annum over the last four years. The estimated amount of government investment does not include GNWT O&M expenditures for staff assigned to commercial

fishing development, Renewable Resources staff involved in investigating fish stock biology, gathering harvest statistics and surveillance, or services provided by MACA and DPW which in the past have usually not charged for fish plant water disposal and utility costs. If these costs are added an additional \$1 million or more could be added to the estimated total government investment in fishery development in the NWT.

**Figure 1**  
**NWT FISHERIES: Level of Funding by Year**  
**(1990-1994)**

1990-91	\$935,676
1991-92	\$1,742,629
1992-93	\$4,363,827
1993- 94*	\$1,639,443



\*1993-94 does not include DevCorp and represents only 1/4 year spending for BDF



## Focus of Government Investment

The focus of government programs and services in support of NWT fishery development can broadly be divided into two areas: DFO programs and services which are targeted at management, regulation and resource assessment; and other government programs and services which are targeted at commercial development. Accepting these two broad divisions allows us to **identify** a number of trends.

First, since DFO accounts for about 71 % of total government investment in support of the fisheries, we can safely say that government investment is heavily concentrated in the areas of management, regulation and resource assessment as opposed to commercial development of the fisheries. In light of the importance of fish as a food source for NWT residents and the need to ensure a sustainable on-going fish resource this is a necessary concentration of government investment.

Second, government programs in support of commercial fisheries development (essentially all those programs excluding DFO) are concentrated through two agencies (**DevCorp** and **EDA**) and limited initiatives (test fisheries, fish plants in **Pangnirtung** and **Rankin Inlet**). Indeed, as shown in Figure 2, from 1990 to 1994 the **DevCorp** and **EDA** accounted for **68%** of all government **funding** targeted towards commercial development of NWT fisheries.

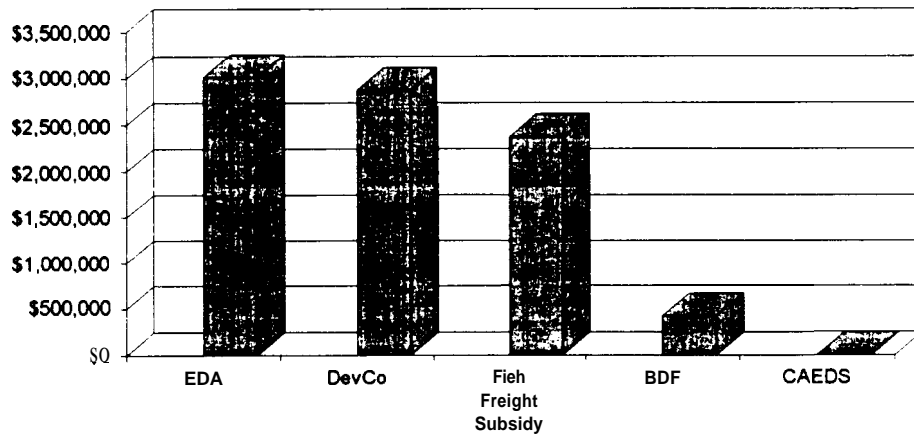
Third, as also shown in Figure 2, conventional business support programs such as the **BDF** and **CAEDS** are utilized to a much lesser extent than other programs by NWT fisheries and in the case of **CAEDS**, not at all. This suggests that commercial fishermen cannot meet **BDF** and **CAEDS** equity requirements or tests for viability.

Finally, government finding in support of commercial development of NWT fisheries is heavily concentrated in the **Baffin** region and to a lesser extent in two other regions: **Keewatin** and **North Slave**. As shown in Figure 3, from 1990 to 1993/94 the **Baffin** region alone accounted for 44% of commercial development finding in NWT fisheries while

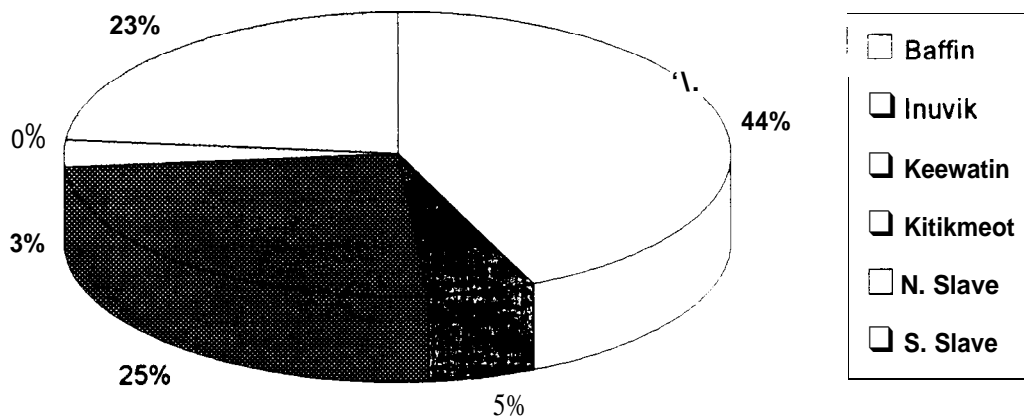
North Slave region accounted for 25%, Keewatin 23% and all other regions only 8%. (For reference, a complete breakdown of NWT fisheries finding by source and region, excluding DFO, is presented at the end of this paper. )

**Figure 2**

**NWT Fisheries: Level of Funding by Program (1990-1994)**



**NWT Fisheries: Level of Funding by Region**



A closer examination of the focus of government investment in fisheries development reveals the following:

***Department of Fisheries and Oceans:*** As mentioned above, the primary focus of DFO programs and services is in the areas of management, regulation and resource assessment support of NWT fishery development. They also provide inspection services, economic analysis, hydrography, physical/chemical science research, biological research, the department's Fisheries Habitat Management Division (**FHMD**), and consultation and coordination with territorial and other federal agencies that administer fisheries development programs. As well, DFO delivers the Fishing Vessel Insurance Program which provides insurance coverage to protect fishermen's capital investments from accidental loss, and the Small Craft Harbour Program which allows the department to cost share in building, expanding or renovating docks and small craft harbours for both recreational and commercial fisheries. In the NWT the Small Craft Harbour program has been used to fund Great Slave Lake receiving stations.

DFO services and programs are provided to existing fisheries free of charge but services to new fisheries including test fisheries and stock assessment are provided on a cost recovery basis.

DFO has an average of 108 person-years of employment in support of NWT fisheries from its A- base and other externally **funded** programs. The department's average annual budget for NWT fisheries has been \$5 million for O&M expenditures and \$574,000 for capital expenditures. The department's budget and person year allotment are heavily concentrated in the areas of FHMD and biological science which together account for 8 1% of total person year allotment, 69% of O&M expenditures and 54% of capital expenditures.

***Economic Development and Tourism:*** In fisheries development, ED&T's primary focus is to create employment and income opportunities for NWT residents. In doing so, over the last two decades the department has served as proponent, financial supporter, implementer and coordinator for fisheries projects, and fisheries development has

dominated the department's efforts in commercial renewable resource activities.

The department's major initiatives in support of fisheries development have included:

- establishing a Renewable Resource division within the department with officers located in headquarters and regions;
- introducing a Commercial Renewable Resource Use Policy with specific provision for commercial fishing freight subsidies;
- introducing a cost-shared EDA with extensive fishery support (see EDA section in the paper);
- and, to lesser extent, supporting fisheries development through various loan and contributions programs such as the Business Credit Corporation (BCC) and Business Development Fund (BDF).

In regards to the fish freight subsidies, the program is designed to increase the competitiveness of NWT fishermen by offsetting high production and freight costs associated with operating fisheries in the north. The program aims at bringing NWT fishermen net returns in line with those of their southern Canadian counterparts.

Eligibility for fish freight subsidies is restricted to active licensed commercial fishermen who are NWT residents and operate financially marginal freshwater and anadromous fishing enterprises. Accordingly, the program is targeted at four fisheries in the NWT: the Great Slave Lake Fishery (GSLF); other Inland Fisheries; the Export Arctic Char Fishery; and the Intersetlement Trade Fishery.

Individual commercial fishermen are the primary focus of the department's freight fish subsidies program, however rather than distributing this money to individual the money is often paid to fish plants allowing fish plants to increase the price paid to fishermen.

Although the Cumberland Sound marine turbot fishery has received fish freight subsidies since 1989, eligibility criteria under the program have yet to be amended to allow the inclusion of turbot.

As shown in Figure 2, over the last four years (1990-1994) the department has provided about \$2.4 million in freight fish subsidies to NWT fisheries which represented 27% of government investment (excluding DFO) in support of fisheries development.

In regards to the BDF, the department introduced the policy in 1991 to consolidate its existing mix of business contribution programs. At that time, the Commercial Renewable Resource Use Policy was included in the BDF, however the department's fish freight subsidy was not included but rather kept as a separate and distinct program.

The BDF was designed primarily to support small business development in the less developed communities of the NWT with attached schedules to meet specific needs of businesses at different stages in the business cycle. These schedules include:

- Schedule A - Contributions Toward Opportunity Identification and Research for business pre-development or **pre-expansion** costs such as planning, legal help, engineering advice, feasibility studies, pilot or demonstration projects, and new product testing.
- Schedule B - Contributions Towards Business Creation, Expansion or Investment to purchase or develop capital such as buildings, equipment and leasehold improvements.
- Schedule C - Contributions for Market and Product Development to undertake marketing campaigns, implement merchandising programs, create promotional material, design and develop packaging, test marketing, attend trade shows, and promote major events.
- Schedule D - Contributions for Business Relief for short term skill development or management assistance.

- . Schedule E - Contributions for Business Relief to assist businesses experiencing cash flow problems **identify** their problems and develop recovery plans.
- Schedule F - Contributions for Venture Capital to encourage NWT and non-NWT investors to make minority investments in less developed areas, regions and industries of the NWT.

There is one other BDF Schedule, Contributions for Business Bailout, for business wind-down.

Contributions under the BDF are not provided if the applicant can secure a reasonable rate of return on investment without assistance. Nor are contributions provided if market disruption is likely to occur. There is also an equity requirement under the program which, in the less developed communities, is either 5% or 10% of project costs, and in the more developed communities, including Hay River and Yellowknife, 20% of project costs.

In support of fisheries development, Schedule A of the BDF has been used to fund test fisheries, product testing and feasibility studies, and Schedule B has been used to purchase of boats, nets, fish tubs, net haulers and winter fishery equipment, while other Schedules have rarely been used. In comparison to other sources of funding the BDF has provided relatively little funding for fisheries development - indeed, the BDF accounted for only 5% of government funding in fisheries development (excluding DFO) in the NWT. The main reason for the low level of BDF investment is that many commercial fishermen have low levels of income therefore have difficulty meeting equity requirements and showing overall business viability, at least as conventionally defined. The 20% equity requirement for residents of Hay River has made accessing the BDF particularly **difficult** for Great Slave Lake fishermen.

In regards to the Business Credit Corporation (**BCC**), the agency has been established as a crown corporation to operate as a “lender of last resort” and provide business loans, debt financing and contract security (e.g. bonding) for companies unable to obtain commercial financing, or where commercial banks are unavailable. The agency, however demands

significant equity investment from an applicant, demonstration that the applicant will operate a viable business and pay back the **BCC** loan, and extensive security in the form of personal guarantees, fixed and floating charge debentures and other chattels. A business plan with financial forecasts is also usually required as part of a **BCC** application, particularly on any relatively large loan application (e.g. over \$20,000). As such, the program is targeted to those who have the wherewithal to finance a business and those who can provide the required business plan. Given **BCC** lending criteria, very few commercial fishermen have used the program. For example, in the three regions that comprise **Nunavut (Baffin, Keewatin and Kitikmeot)** since 1991 only three loans, together totaling \$120,000, have been issued involving the fisheries and each loan involved the purchase of a fishing vessel and equipment.

***Economic Development Agreement (EDA):*** Since 1983, there have been three federal-territorial cost-shared Economic Development Agreements (EDAs). The first EDA was a \$21 million agreement, the second a \$39 million agreement, and the third and current EDA (1991-1996) a \$50 **million** agreement. **All** EDAs have been used by both governments as a means of stimulating economic growth in the NWT and improving coordination and economic cooperation between both levels of government.

With the current \$50 million EDA the federal government provides 70% of funds and the territorial government 30% of **funds**. Under the agreement there are three cooperative agreements and within each cooperative agreement a number of initiatives including one initiative for fisheries development with a five-year budget of \$5 million.

The EDA fisheries initiative is targeted at making the NWT commercial fishing industry viable and sustainable over the long term. Activities that are **funded** include:

- assessing the potential of underutilized marine and inland fish stocks that would support economically viable and sustainable fisheries;
- implementing pilot projects to determine the logistics, economics and technical feasibility of winter fishing for char and whitefish in Eastern and Central Arctic water



bodies and open water whitefish in the Mackenzie Delta and lakes north of Great Slave Lake;

- undertaking gear testing, demonstration projects, and training fishermen and plant workers;
- conducting market research and development.

The largest percentage of the EDA fisheries budget is allocated to stock assessments, an important concentration if sustainable fishery development is to be assured over the long term.

Although there has been some criticism about the overall complexity of the EDA, administration and delivery within the fisheries initiative have been relatively streamlined and efficient - at least according to interviews with government representatives who sit on the EDA Fishery Management Committee; a group tasked with overseeing the fisheries initiative. Administration involves ED&T as the implementing party with delivery decentralized from the Management Committee to Regional Fisheries Management Sub-Committees. In turn, the Regional Sub-Committees are responsible for developing annual consultation plans, annual work plans, decision-making on proposals, monitoring funded projects and progress reports. Representation on the Regional 'Sub-Committees consist of one representative from each of ED&T, Renewable Resources, DFO, and DIAND and two private sector representatives. ED&T and DIAND co-chair the Sub-Committees.

One major concern with the EDA is that the DevCorp is not represented on either the EDA Sub-Committees or Management Committee. This means that a major investor in fisheries development in the NWT is not involved in decisions that ultimately have direct and indirect impacts on corporation fisheries investments.

As shown in Figure 2, the EDA accounted for 35% of government funding in fisheries development in the NWT (excluding DFO).

**Canadian Aboriginal Economic Development Strategy (CAEDS):** In 1989 the federal government introduced CAEDS as a joint initiative coordinating the economic development work of Industry, Science and Technology Canada (ISTC), Indian Affairs and Northern development (DIAND), and Employment and Immigration Canada (CEIC). The key goal of the strategy is to provide long-term employment and business opportunities to Aboriginal Canadians by giving them the means to effectively manage their own business enterprises, economic institutions, job training and skills development. The various programs under CAEDS are administered by the three federal departments.

In regards to fishery development in the NWT, the consultants were not able to identify any business support finding provided to any of the fisheries through CAEDS. Like the BDF and BCC, the main reason for the lack of CAEDS investment in the fisheries might be that commercial fishermen cannot meet CAEDS equity or viability requirements.

**NWT Development Corporation (DevCorp):** In 1990, the GNWT established the NWT Development Corporation (DevCorp) as a Crown Corporation with four main objectives: to create jobs and income primarily in small communities; stimulate growth of businesses; promote economic diversification and stability; and promote the economic objectives of the GNWT.

In regards to fisheries, the DevCorp has invested in two fish plants (Pangnirtung and Rankin Inlet) a total of \$2.8 million. As shown in Figure 2 from 1990-1994 the DevCorp's investment accounted for 33% of government finding in fisheries development (excluding DFO). In addition, based on a recent Auditor General's report, the DevCorp plans on investing further funds in the two fisheries - and in the case of the Pangnirtung fisheries alone, including finds already invested DevCorp investment is expected to total \$6.6 million in capital and operating loss subsidies.

One concern with the DevCorp has been the concentration of investment in only two communities. Indeed, in the same Auditor General's report the DevCorp has been criticized for not having developed a broad strategic plan for making corporate investments including fisheries investments.

## Government Monitoring and Evaluation

Government monitoring of fishery investments has been sporadic. In regards to evaluation, no comprehensive government evaluation of fishery investments has ever been undertaken.

*Department of Fisheries and Oceans (DFO):* Department programs and services are subject to internal audit and evaluation consistent with Treasury Board regulations. Although the Central Arctic Region has developed an Economic Planning Framework for NWT Fishery and Habitat Management (the Five-Account System), completed an economic analysis of the **Pangnirtung** fishery and is now conducting a similar study on the Cambridge Bay Export Char Fishery, no comprehensive evaluation of all NWT fisheries has ever been conducted by DFO.

*Economic Development and Tourism (ED&T):* All BDF contributions are monitored by ED&T and financial disbursements are tracked through the department's Management For Information System (**MFIS**). Contribution recipients are also subject to audit by the **GNWT**. The only cost and earnings study ever completed by the department was in 1991 and this was undertaken by the department's headquarters' staff. Employment and income information for 1990/91 was also compiled by the department in a 1992 **report**.

*Economic Development Agreement (EDA):* Aside from a recently completed mid-term management review, no evaluation has been completed or as yet started on the EDA Fisheries Initiative, although a comprehensive evaluation is to be undertaken before the end of the agreement in 1996. The lack of evaluation information in the current agreement has made it difficult for both levels of government to determine if the fisheries initiatives has led to economic growth (a stated goal of the EDA). The lack of evaluation **information** has also made it difficult - indeed impossible - for government to properly weigh the pros and cons of **re-profiling** funds from one initiative to another and one program to another.

***NWT Development Corporation (DevCorp):*** Corporation activities are subject to Financial Administration Act regulations including audit, Public Accounts review and program evaluation. However, as already noted, the Auditor General has criticized the corporation for lacking a strategy that would guide investment decisions. Without such a strategy the corporation cannot be held accountable. In the same report the Auditor general also said that the corporation lacks adequate staff to “do a good job”, has made investments before having received **all necessary information**, and lacks methods to measure and report on whether it is being successful on a project-by project or **company-wide** basis. Although these criticisms are significant, it is also fair to say that the **DevCorp** has been in operation a relatively short time with high expectations that it make corporate investments sooner rather than later. It is expected that the corporation will develop a corporate strategy and attempt to meet all Auditor General concerns.

## Reference Table - Total Government Spending

NWT FISHERIES: GOVERNMENT FUNDING (Excluding DFO) BY SOURCE AND REGION (1990-1994)										
	x.92		x.97		x.98		1995-94			
	1993 \$\$\$	%	1 W3 \$\$\$	%	1 993 \$\$\$	%		%		
										\$8,681,575
<b>Baffin</b>										
Total	\$272,922		\$700,066		\$2,208,001		\$595,539			\$3,776,528   43.50%
Sch A	\$42,922	15.73%	\$46,678	6.67%	\$146,786	6.65%	\$158,000	26.53%		
BDF*	so	0.00%	\$1,936	0.28%	\$22,712	1.03%	\$2,480	0.42%		
DevCo	\$230,000	64.27%	\$533,500	76.21%	\$1,470,000	66.58%	\$0	0.00%		
EDA	so	0.00%	\$117,952	16.85%	\$568,503	25.75%	\$435,059	73.05%		
CAEDS	so	0.00%	so	0.00%	so	0.00%	\$0	0.00%		
<b>Inuvik</b>										
Total	\$1,463		\$136,926		\$166,600		\$150,000			\$454,979   5.24%
Sch A	\$1,453	100.00%	\$2,023	1.48%	so	0.00%	so	0.00%		
BO F*	so	0.00%	so	0.00%	so	0.00%	so	0.00%		
DevCo	\$0	0.00%	so	0.00%	\$0	0.00%	so	0.00%		
EDA	\$0	0.00%	\$134,903	98.52%	\$166,600	100.00%	\$150,000	100.00%		
CAEDS	\$0	0.00%	\$0	0.00%	\$0	0.00%	so	0.00%		
<b>Keewatin</b>										
Total	\$10,172		\$237,182		\$1,287,201		\$643,454			\$2,178,009   25.09%
Sch A	\$10,172	100.00%	\$9,661	4.07%	\$1,924	0.15%	so	0.00%		
BO F*	so	0.00%	\$87,641	37.04%	\$147,142	11.43%	\$35,654	5.54%		
DevCo	so	0.00%	\$38,800	16.36%	\$602,700	46.82%	so	0.00%		
EOA	so	0.00%	\$100,860	42.53%	\$535,435	41.60%	\$607,800	94.46%		
CAEDS	so	0.00%	so	0.00%	so	0.00%	\$0	0.00%		
<b>Kitikmeot</b>										
Total	\$23,734		\$54,742		\$122,208		\$57,000			\$257,664   2.97%
Sch A	\$23,734	100.00%	\$36,312	66.33%	so	0.00%	so	0.00%		
BO F*	so	0.00%	so	0.00%	so	0.00%	so	0.00%		
DevCo	so	0.00%	so	0.00%	so	0.00%	so	0.00%		
EDA	so	0.00%	\$18,430	33.67%	\$122,208	100.00%	\$57,000	100.00%		
CAEDS	\$0	0.00%	so	0.00%	so	0.00%	\$0	0.00%		
<b>N. Slave</b>										
Total	\$3,173		\$2,497		\$977		\$0			\$6,647   0.08%
Sch A	\$3,173	100.00%	\$2,497	100.00%	\$977	100.00%	\$0			
BDF*	so	0.00%	so	0.00%	so	0.00%	\$0			
DevCo	so	0.00%	so	0.00%	so	0.00%	\$0			
EDA#	so	0.00%	so	0.00%	so	0.00%	\$0			
CAEDS	so	0.00%	so	0.00%	so	0.00%	\$0			
<b>S. Slave</b>										
Total	\$624,223		\$611,215		\$578,641		\$193,450			\$2,007,729   23.13%
Sch A	\$624,223	100.00%	\$549,974	89.98%	\$550,158	95.04%	\$158,000	81.67%		
BOF*	\$0	0.00%	\$61,242	10.02%	\$28,683	4.96%	\$35,450	18.33%		
DevCo	so	0.00%	so	0.00%	so	0.00%	so	0.00%		
EDA	so	0.00%	so	0.00%	so	0.00%	\$0	0.00%		
CAEDS	\$0	0.00%	so	0.00%	so	0.00%	so	0.00%		
<b>NWT</b>										
Total	\$935,676		\$1,742,629		\$4,363,827		\$1,639,443			\$8,681,575
Sch A	\$705,676	75.42%	\$647,145	37.14%	\$67,845	16.04%	\$316,000	19.27%		\$2,366,667   27.28%
BDF*	so	0.00%	\$151,019	8.67%	\$198,536	4.55%	\$73,584	4.49%		\$423,140   4.87%
DevCo	\$230,000	24.58%	\$572,300	32.64%	\$2,072,700	47.50%	so	0.00%		\$2,875,000   33.12%
EDA	so	0.00%	\$372,165	21.36%	\$1,392,746	31.92%	\$1,249,859	76.24%		\$3,014,769   34.73%
CAEDS	so	0.00%	so	0.00%	so	0.00%	\$0	0.00%		so   0.00%