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FORMATIVE EVALUATION OF THE ABORIGINAL YOUTH BUSINESS INITIATIVE

Final Report

Audit and Evaluation Branch

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Canada

Executive Summary

Background

Aboriginal Business Canada (ABC) established the Aboriginal Youth Business Initiative (AYBI) in 1996 to enable Aboriginal people between 18 and 29 years old, inclusive, to access financing and support services for the purpose of setting up businesses. The initiative is implemented through two types of Aboriginal controlled organizations, Aboriginal Capital Corporations (ACCs) and Community Futures Development Corporations (CFDCs), collectively referred to as Delivery Agents (DAs). These organizations have been allocated funds through contribution agreements, called projects. To date, 37 AYBI projects have been approved, involving 20 DAs.

ABC's financial commitment to the projects amounts to \$11.4 million. Of this, \$4.5 million is allocated to loan capitalization, \$1.8 million is available to cover the forgivable component of the loans, and \$5.2 million is directed toward AYBI operating costs incurred by DAs¹. The maximum loan size is \$15,000 with the average being approximately \$10,000. The DAs are distributed across Canada, including the Northwest Territories and the Yukon, but with no presence as yet in Saskatchewan, Nunavut, parts of Alberta and Ontario, and a limited presence in the Maritimes.

Eligible clients of AYBI are Status and Non-Status Indians, Inuit and Métis in Canada. In a business partnership, the youth client must be the majority owner. Loan contributions are available at an interest rate normally not exceeding 8.5%. DAs are required to match the loan capital component of the AYBI contribution. DAs have considerable flexibility in offering the program to suit their operational requirements and adapting it to the opportunities for their targeted clientele. They provide assistance for entrepreneurial training, business planning and mentoring.

Study Approach

In accordance with Treasury Board Guidelines for formative evaluations, the study focused on program delivery, client reach and short-term impacts of the initiative; a more thorough examination of these together with program rationale will be conducted in a later summative evaluation. The approach involved four lines of evidence: document and file review; 28 interviews with ABC/AYBI management (7), DAs (12), AYBI clients (6), and other AYBI stakeholders (3); a survey of all DAs (20) for loan information; and site visits to two DAs and two clients.

¹ The discrepancy between the total amount and the breakdown amounts is due to rounding.

Findings and Conclusions

Initiative Rationale

Overall, the goals and objectives of the initiative are consistent with the expectations of stakeholders, although there is wide recognition that they are difficult to achieve. At the same time, based on our consultations with the DAs, it was apparent that DAs place a different priority on serving the youth population. It was also apparent that the capability of the DAs to serve youth varied significantly. DAs cited many challenges faced by Aboriginal youth entrepreneurs, including a lack of formal education, work experience, and entrepreneur role models. The majority of DAs have difficulty drawing viable business plans from their targeted populations at the rate they had forecasted. On the other hand, while the number of clients interviewed was limited, they often indicated that AYBI was the only initiative that fit their needs, and that without AYBI the DAs would not have been in a position to be of assistance.

The evaluation team concluded that AYBI is consistent both with federal government priorities and those of the DAs. The initiative appears to be filling a gap between sources of financing available to Aboriginal youth entrepreneurs. The evaluation team concluded that the innovative approach of AYBI, that of delegating responsibility to the DAs within certain pre-determined constraints, continues to be appropriate given the initiative objectives, scope and resources.

Initiative Design

DAs and clients broadly agreed with the design of AYBI in addressing the challenges of encouraging entrepreneurship in Aboriginal youth. AYBI provides DAs with considerable flexibility in implementing the program to suit the requirements of their target population. A majority of DAs consulted still feel, however, that components of the program design not under their control require revision. These are discussed in the report.

The evaluation team concluded that the major design components of the initiative are felt to be well founded and appropriate. Specifically:

- The interest rate of 8.5% is sufficiently high to be attractive for DAs, while permitting clients to develop a credit rating.
- The current age restriction (clients must be less than 30 years old) is appropriate given the objectives of the initiative and the anticipated negative effect an age limit increase would have on the availability of services and products to those under 30.
- The total AYBI loan contribution amount of \$15,000 per client is sufficiently high to complement other micro-credit programs, such as that of NACCA, and sufficiently low to keep funds available for providing start-up funds to the targeted market of qualified early stage entrepreneurs.
- The forgiveness rate of up to 25% is sufficiently high to provide an additional incentive to both repay the loan, resulting in a favourable credit rating, and to reduce the exposure of the DAs' AYBI loan portfolio.

- The requirement for matching funds should be continued to secure the commitment of the DAs to the success of the loan, while diluting the risk to the Crown.
- Those matters relating to the loan administration process (e.g. borrower equity requirements) currently under the purview of the DA should remain so.

Service and Delivery

There is a continuing recognition of the extensive efforts required by financing organizations to identify potential youth clients, and the relatively low proportion of these who become loan recipients. DA efforts vary widely, in large part depending on the size of the catchment areas of DAs, and whether they are rural or urban. Most DAs are providing pre-care and after-care services to clients, often including business planning and sometimes bookkeeping assistance and tax advice. DAs generally reported that the lack of business sophistication of most clients puts high demands on staff.

The view of the evaluation team from the evidence gathered is that DAs vary considerably in their approaches, targeted population, level of commitment, and capabilities. At the same time, it is clear that the challenges AYBI seeks to address are formidable, and that the needs of the different targeted populations vary widely. The DAs consulted reported a number of practices that they have found to be effective in AYBI implementation and these are listed in the report.

Given the considerable challenge faced by the evaluation team in collecting and interpreting service and delivery information from DAs, it was concluded that the initiative would benefit significantly from obtaining agreement between ABC and the DAs on an AYBI performance measurement and reporting strategy. We believe more diligence on the part of ABC in the earlier years of the program to address this shortcoming would have been beneficial to both ABC and the DAs. We also concluded that the program design, while innovative and appropriate, is poorly communicated and/or understood both by DAs and by their clients.

Client Reach

Overall, 7% of the population targeted by the DAs has participated in the initiative through services received and/or as loan recipients. DAs reported that most of their potential clients were aware of AYBI. DAs used a wide variety of promotional methods, including newspapers, radio and television advertising (when budgets allowed), and informing Bands' Economic Development Officers (EDOs) and officials at Chambers of Commerce so that they could promote the initiative. It became apparent in our consultations that the most effective method for promoting awareness of AYBI was by DA staff visiting schools, job fairs, and other youth venues, including hockey tournaments, and holding office hours in local communities.

Despite extensive efforts of the evaluation team, the information received on the reach and impact of the program over the course of the study was frequently of poor quality or incomplete. We were able to determine, however, that a broad range of services is being offered through AYBI to a relatively small number of clients. In order to improve client reach, we examined the possibility of merging AYBI with FNIYB and concluded that, with the recent transfer of

responsibility of AYBI to ABC regional offices, it would be premature to consider a merger at this time.

Short Term Impacts

Most client-related evidence gathered was anecdotal given our limited success in arranging interviews with them. The businesses of the clients interviewed employ an average of less than three full time equivalent positions, including that held by the client, but are viable, though most are still in the early stages. Overall, the businesses supported by AYBI appear to be sole proprietorships requiring mostly low level skills, but sometimes technical skills in a broad range of fields. Generally, clients interviewed report optimistic expansion plans.

From the survey analysis it was determined that DAs received, on average, 50 loan applications to date (median was 32), and approved 27 (median was 21), for an approval rate of 54%. With 19 of 20 DAs reporting, and based on what are felt to be reasonable interpretations of the responses provided, it is estimated that 568 loans have been supported by AYBI with an average loan size of approximately \$10,000, and the average repayment period was 3.3 years. Approximately 52% of the loans remain open, which appears high given that the program is five years old and a higher proportion of loans were written in the earlier years of the initiative. To date, 11% of all loans have been written off; if this relatively low rate is maintained the program will have made an important contribution to clients' credit ratings.

Summary of Recommendations

The study makes thirteen recommendations divided into four areas, as follows:

- 1) Improving the awareness of DAs about information on the AYBI terms and conditions and the best practices in delivering it;

Recommendation #3 (see page 3-10): That the eligible uses of forgiveness funds be communicated to AYBI stakeholders.

Recommendation #7 (see page 3-16): That a program guide be prepared for DAs, and be published on the ABC website. This guide would include information such as:

- Initiative objectives and design
- ABC stacking rules that apply to AYBI loans and their forgiveness component
- Summary of terms and conditions in a typical contribution agreement
- Summary of terms and conditions under the discretion of DAs
- Respective responsibilities of DAs and ABC regional and central offices
- Standardized reporting forms and reporting deadlines from DAs to ABC
- Claims and disbursement processes, and
- The AYBI contribution agreement renewal process.

Recommendation #8 (see page 3-17): That regional offices facilitate the sharing of best practices among DAs.

Recommendation #11 (see page 3-27): That ABC request that all advanced forgiveness funds be returned or deducted from future payments, and that the practice of advancing forgiveness funds be replaced by disbursing such funds on an as required basis.

- 2) Improving the quality of the AYBI youth market information used to forecast demand in AYBI proposals from DAs;

Recommendation #1 (see page 3-5): That a standard market assessment tool be submitted by DAs as part of the application and renewal processes for AYBI projects. This tool should segment and quantify the targeted populations, their growth rates, the opportunities – or problem areas – to be addressed in each segment, and the number of clients that have been, and that are forecast to be, served by each AYBI product or service.

Recommendation #2 (see page 3-5)²: That each DA conduct a broader assessment of the product and service mix of all the programs targeting youth entrepreneurs within their catchment area. This analysis would include:

- An inventory of entrepreneur support products and services, by funding body and program, and including important terms and conditions;
- A positioning of AYBI in the DAs' overall product and service mix; and
- A specification of the DAs' governance and accountability responsibilities for their product and service mix.

Recommendation #13 (see page 4-2): That should AYBI be considered for an increased level of funding, that this funding be made contingent on the implementation of the preceding recommendation.

- 3) Introducing performance measurement and reporting strategies to the initiative;

Recommendation #4 (see page 3-16): That in addition to financial audits, reports of compliance³ with AYBI policies be prepared.

Recommendation #5 (see page 3-16): That ABC develop a model performance measurement and reporting strategy for AYBI. This strategy, and relevant reporting tools, should be developed in consultation with ABC regional offices and with DAs.

² Given the extensive effort that would be required to implement this recommendation, the review team feels implementation would only be appropriate if the budget for AYBI were to be increased. This matter is discussed further in Chapter 4.

³ This is a requirement of certain federal programs, for example, the Networks of Centres of Excellence program requires both annual financial statements and annual audit reports of compliance with the administrative and financial policies of the program. Both these audits are to be carried out by an independent accounting firm (Source: www.nce.gc.ca). The intent of the recommendation is to determine how well DAs have adhered to the administrative and financial policies of AYBI in delivering the program.

Recommendation # 6 (see page 3-16): That DAs include an adapted version of this model in their funding applications reflecting their corporate strategy in meeting the objectives of AYBI.

Recommendation #9: That, for DAs deemed to have inadequate approaches to delivering the AYBI program and/or not to be responding to requests for performance information, ABC promptly exercise the right to sit on the Board of that DA to determine the appropriate action to be taken.

- 4) Should funding be increased to the initiative, positioning AYBI by each DA in the overall mix of programs and services targeting youth entrepreneurs in the catchment areas of these DAs.

Recommendation # 10 (see page 3-22): That should an inventory of entrepreneur client support products and services be prepared by DAs (see recommendation above), that a case study should be undertaken of a selection of three DAs (one urban ACC, one rural ACC and one CFDC, each in different regions) of the anticipated impact of the merger of AYBI with FNIYB and other youth support programs.

The study further recommends that AYBI continue to be supported at its current funding level, contingent on the implementation of the recommendations made in the report, with increased funding being dependent on a broader assessment of the needs of the target population.

Recommendation # 12 (see page 4-1): That AYBI continue to be supported at its current funding level, contingent on the implementation of the recommendations made in this report - with the exception of recommendation #2 - in recognition of the sound rationale and design of the program and the general capabilities of the DAs in serving the needs of the targeted youth population. The period of the renewal would be determined based on the amount of time required to receive better evidence on its delivery, reach and impact. This period would be defined in the performance measurement and reporting strategy.

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NOTE:

Minor editorial changes were made to this report in order to prepare the document for posting to the Internet (including removal of standard Appendices such as list of interviewees and questionnaires). Readers wishing to receive a copy of the original version of this report should contact the Audit and Evaluation Branch at Industry Canada.

List of Acronyms

ABC	Aboriginal Business Canada
ACCs	Aboriginal Capital Corporations
AYBI	Aboriginal Youth Business Initiative
AYC	Aboriginal Youth Clients
AFI	Aboriginal Financial Institutions
CESO	Canadian Executive Service Organization
CFDCs	Community Futures Development Corporations
DAs	Delivery Agents
EDOs	Economic Development Officers
FNIYB	First Nations and Inuit Youth Business Program
IC	Industry Canada
INAC	Indian and Northern Affairs Canada
NACCA	National Aboriginal Capital Corporation Association
NAEDB	National Aboriginal Economic Development Board

1. Background

Aboriginal Business Canada (ABC) established the Aboriginal Youth Business Initiative (AYBI) in 1996 to enable Aboriginal people between 18 and 29 years old, inclusive, to access financing and support services for the purpose of setting up businesses. The initiative is implemented through two types of Aboriginal controlled organizations, Aboriginal Capital Corporations (ACCs) and Community Futures Development Corporations (CFDCs), collectively referred to as Delivery Agents (DAs). These organizations have been allocated funds through contribution agreements, called projects, between ABC and DAs. DAs who successfully deploy their funds may re-apply for additional projects. To date, 37 AYBI projects have been approved, involving 20 delivery agents.

To launch the initiative, calls for Letters of Interest were sent to all 32 ACCs and the roughly 40 Aboriginal controlled CFDCs. Twenty-one responses were received, of which 20 were supported commencing in early 1997.

ABC's financial commitment to the projects amounts to \$11.4 million. Of this, \$4.5 million (39%) is allocated to loan capitalization, \$1.8 million (16%) is available to cover the forgivable component of the loans, and \$5.2 million (45%) is directed toward AYBI operating costs incurred by DAs⁴. The maximum loan size is \$15,000 with the average being approximately \$10,000. The DAs are distributed across Canada, including the Northwest Territories and the Yukon, but with no presence as yet in Saskatchewan, Nunavut, parts of Alberta and Ontario, and a limited presence in the Maritimes.

1.1 AYBI Goal and Objectives

The goal⁵ of the AYBI is to increase access to capital and business management services for Aboriginal youth with the following objectives:

- To build entrepreneurship interest and capacity;
- To provide access to small amounts of capital on concessional terms; and
- To provide coaching and mentoring services to youth businesses to ensure high levels of success.

⁴ The discrepancy between the total amount and the breakdown amounts is due to rounding.

⁵ Call for Expressions of Interest in Aboriginal Youth Business Funds, Aboriginal Business Canada, November 1996.

1.2 *AYBI Design*⁶

The initiative is sponsored by Industry Canada (IC) through ABC and is delivered in partnership with DAs. As of the summer of 2002, the initiative is administered through the regional offices of ABC. Prior to that time, it was administered through two regional coordinators, one responsible for the west and the other for the east. The sizes of the catchment areas of the DAs vary widely, ranging from tens to hundreds of kilometres across. ABC provides support for one or more of the following:

- The operating costs of DAs incurred in delivering the initiative, including initiative promotion, and loan pre-care and after-care services;
- Capital for loans to Aboriginal youth that are administered by the DAs; and
- Funds for DAs to forgive up to 25% of loans of those clients who successfully repay the first 75% of their loans, including interest.

Eligible clients of AYBI are Status and Non-Status Indians, Inuit and Métis in Canada. In a business partnership, the youth client must be the majority owner. Loan contributions are available at an interest rate normally not exceeding 8.5%. DAs are required to match the loan capital component of the AYBI contribution.

DAs have considerable flexibility in offering the program to suit their operational requirements and adapting it to the opportunities for their targeted clientele. With the exception of certain additional terms and conditions required by ABC and summarized below, policies are established by each DA and documented in their internal policy manual. This document includes mentoring, business planning, and loan administration services that are available to AYBI clients, as well as equity requirements for borrowers, and collection procedures for delinquent loans. DAs also have considerable flexibility in deploying operating funds to promote the program within their catchment areas.

Additional terms and conditions have been established by ABC for the initiative, as follows:

- All funds, including loan capital repayments and interest accrued, vest with the DAs, but must continue to be used for financial services to Aboriginal youth businesses;
- Funds are advanced to the DAs. DAs are required to report costs paid, loans made, interest earned, repayments received, loan forgiveness paid, and interest accrued for each reporting period to receive subsequent instalments from ABC;
- The Minister of Industry Canada, or a delegated representative, has the right to attend board meetings of the DAs, with observer status only;
- The Minister must approve any changes in membership to the Board and senior management of the DAs; and

⁶ The creation of AYBI was inspired by a similar program in the United Kingdom. The Prince's Trust offers a business start-up program to 18 to 30 year olds, including low interest loans up to £5,000, mentoring, and grants in certain circumstances. The program reports having helped targeted youth, including ex-offenders, educational under achievers, and the unemployed, launch over 47,000 businesses since 1983. Source: www.princes-trust.org.uk.

- The total amount of all loans to a client may not exceed \$15,000, however clients may receive multiple loans.

In total, \$11.4 million has been approved for AYBI projects. Of this, \$10.3 million has been disbursed to DAs to date. Table 1-1 below summarizes the distribution of funding between Eastern and Western DAs.

Table 1-1: AYBI funding, by component, by region (all figures in millions)

Region	Capital Approved	Forgiveness Approved	Operating Approved	Total Approved	Total Disbursed
West	\$2.6	\$1.2	\$3.0	\$6.8	\$5.7
East	\$1.9	\$0.6	\$2.1	\$4.7	\$4.6
Total	\$4.5	\$1.8	\$5.2	\$11.4	\$10.3

Discrepancies in totals are due to rounding.

2. Evaluation Approach and Methodology

2.1 Evaluation Issues

Evaluation issues and questions for AYBI were distributed in advance of the study⁷. These issues are in five areas:

- Initiative Rationale
- Initiative Design
- Service and Delivery
- Client Reach
- Initiative Impacts

In accordance with Treasury Board Guidelines for formative evaluations, it is understood that the rationale and short-term impacts of the initiative would receive a preliminary exploration, and that a more thorough examination of these would be conducted in a later summative evaluation. The questions corresponding to each issue area above are provided below.

2.1.1 Initiative Rationale

This issue and accompanying questions examined whether AYBI is satisfying a continuing need in the targeted population.

- Is the rationale for the initiative based on clearly defined problems and the relevant needs of Aboriginal youth entrepreneurs?
- Is this type of loan initiative consistent with the federal government's, and ABC/ Industry Canada's mandates?
- Are the overall goals and objectives of the initiative consistent with the expectations of stakeholders?

⁷ Request for Proposals, Aboriginal Business Canada, February 2002.

2.1.2 Initiative Design

This issue relates to the appropriateness of the design of the initiative, and its alignment with the initiative objectives.

- Is the initiative design consistent and relevant to the overall goals of the AYBI (youth loan fund, training, interest reduction and loan forgiveness)?
- Has the initiative improved awareness and understanding of business as a career option for Aboriginal youth?
- Is the AYBI design providing Aboriginal youth with the tools, skills and financing needed to operate a commercially viable business?
- Does the initiative complement, duplicate or overlap existing youth entrepreneurship programs? Is there adequate co-ordination with other programs and services?

2.1.3 Service and Delivery

This issue is concerned with determining whether the AYBI is effectively managed, both by DAs and ABC, and delivered.

- Is the delivery of AYBI by delivery agents done in an efficient and cost-effective manner?
- What concerns do Aboriginal youth clients and relevant stakeholders have about the delivery of the initiative?
- Are the appropriate management controls in place to ensure the effective delivery of the initiative (e.g. reporting)?
- What practices and delivery processes have contributed to the initiative's success (Best Practices)? What practices have contributed to poor initiative performance?
- What factors have facilitated or impeded the delivery of the initiative?

2.1.4 Client Reach

This issue is concerned with determining whether targeted populations are being reached by the initiative.

- What are the general demographic characteristics of Aboriginal youth applying to the initiative?
- Is the target group aware of the initiative and what efforts can be undertaken to improve awareness and uptake?
- What delivery structure is appropriate to ensure accessibility and optimum reach to the targeted client group?

2.1.5 Initiative Impacts

This issue focuses on the short-term impacts, directly attributable to the AYBI, of offering support services and loans. Impacts are examined for both delivery agents and for their clients.

Impacts on Youth

- To what extent has the AYBI contributed to the development of youth businesses, and improved management capacity and experience, wealth creation and employment?
- How has AYBI improved access to other sources of financing?
- Has the provision of pre and after-care business services by mentors and delivery agents improved the performance of Aboriginal youth business?
- To what extent has the 25% forgiveness clause been implemented, and does this encourage youth business development?
- Were there any unintended impacts on youth?

Impacts on Delivery Agents

- Describe the activities undertaken (e.g. pre-care, training, loan fund, forgiveness, after-care, monitoring and mentoring) and results achieved by delivery agents since inception of the initiative.
- What impacts and capacity building have resulted for delivery agents?
- Were there any unintended impacts on delivery agents?

2.2 Methodologies

Four methodologies were used to address the issues and questions for the study, these are described now.

2.2.1 Document/File Review

Documents and files considered in the evaluation included the following:

- The evaluation framework completed in August 2001 and approved by Treasury Board;
- Project financial data, including data on funds provided to DAs for capital, operating costs and loan forgiveness;
- Project files, including project proposals, contribution agreements, and review process and assessment criteria for proposals; and
- Loan portfolio and service performance information, as reported by DAs in a survey.

2.2.2 Interviews

Interviewees from five stakeholder groups were consulted. An interview guide was prepared for each, attached as Appendix A. The interviewees in each group are as follows:

- Three AYBI program staff from ABC: one from Ottawa and one from each of the regions (East and West);
- Four ABC program staff: two regional directors and two regional managers;
- Three AYBI Stakeholders: one from the National Aboriginal Capital Corporation Association, one from Indian and Northern Affairs, and one at arms length from ABC with an in-depth understanding of AYBI;
- Twelve senior staff⁸ from ACCs and CFDCs: representing nine AYBI DAs and 3 non-participating ACCs and CFDCs; and
- Six Aboriginal youth clients: selected based on an analysis of the loan portfolio profile of nine DAs. Client interviewees included five whose businesses are ongoing concerns and one who did not receive a loan but benefited from other AYBI supported services. Despite extensive efforts of the review team, more interviews could not be arranged.

A list of those interviewed is attached as Appendix B.

2.2.3 Survey of Delivery Agents

The evaluation team, in cooperation with ABC, made a significant effort to collect information from all DAs, including those that were not interviewed. They were asked to complete an information form regarding the reach of the initiative and the performance of their loan portfolios. The form is attached as Appendix C.

The request was made by phone, by fax and/or by email. Each non-responsive DA also received multiple follow-up phone calls. In addition to the requests from HAL, DAs that did not respond were approached by ABC. Including both interviewed and non-interviewed DAs, 11 of the 20 DAs responded to the initial request.

Due to the poor response rate, ABC resent the request for information to the non-responding DAs, re-emphasizing the importance of the request. As a result, again after repeated requests in certain instances, eight more responses were received. In total, 19⁹ of 20 DAs responded to the request.

2.2.4 Site Visits

One-day site visits were conducted at two DAs, one in Ontario and one in Quebec. These visits enabled the evaluation team to explore more fully the DAs' operations, such as the allocation of

⁸ In certain instances, support staff also participated in the interview.

⁹ Only NWT Métis -Dene Development Fund failed to complete the request for information form.

staff to AYBI delivery, marketing and promotion efforts, and their pre-care and after-care services. Two AYBI client site visits were also conducted.

2.3 *How the Methodologies Support the Issues*

The number of marks () identifies the extent to which the issues were supported by the corresponding methodology. No marks for a given methodology means that it played a limited role, if any, in the review of the corresponding issue, while three marks indicates that it played an important role.

Methodology	Issues				
	Rationale	Initiative Design	Service and Delivery	Client Reach	Initiative Impacts
Document/File Review					
Initiative performance data	∣	∣∣		∣∣	
Project files	∣	∣∣∣	∣∣		
Loan portfolio and service performance	∣∣	∣∣	∣∣∣	∣∣∣	∣∣∣
Interviews					
ABC program staff	∣∣∣	∣∣∣			
ACCs and CFDCs	∣∣∣	∣∣∣	∣∣∣	∣∣∣	∣∣∣
Other AYBI stakeholders	∣∣∣	∣∣∣			
Aboriginal youth clients	∣	∣∣	∣∣∣	∣∣	∣∣∣
Survey of Delivery Agents					
Delivery Agents	∣∣	∣	∣	∣∣∣	∣∣∣
Site Visits					
Delivery Agents	∣∣∣	∣∣∣	∣∣∣	∣∣∣	∣∣∣

3. *Findings, Conclusions and Recommendations*

3.1 *Initiative Rationale*

“Aboriginal youth represent one of the fastest growing segments of the Canadian population and a great potential for a dynamic and flourishing business community and economy” - Michel Vennat, President & CEO, Business Development Bank of Canada

3.1.1 *Findings*

Challenges Faced by Aboriginal Youth

The rationale for AYBI is based on addressing challenges faced by entrepreneurial Aboriginal youth in their efforts to contribute to, and benefit from, economic development. As reported earlier, the targeted population of the initiative comprises four groups: Status Indians, Non-Status Indians, Inuit, and Métis. Unlike most other programs that focus exclusively on On-Reserve Status Indians, Off-Reserve Indians are also eligible for AYBI.

Most of those consulted continue to support the original rationale for the AYBI. From the evidence gathered, including that from youths and potential DAs, the following are continuing needs of Aboriginal youth entrepreneurs:

- Access to loans, which are difficult to acquire through commercial sources due to a lack of a credit history and/or loan equity¹⁰;
- Access to business expertise, because there are few role models and mentors available, in particular in remote areas; and
- Awareness of the demands and opportunities of running a business, because of a lack of initiatives to promote entrepreneurship as a career option. Over the course of the review, it became apparent that DAs place varying levels of, and often considerable, effort into raising this awareness.

A small minority of those consulted questioned the need for the program. Most frequently, concern was raised about the number of Aboriginal youth entrepreneurs and potential entrepreneurs who could benefit from the initiative, which was felt to be small.

¹⁰ The Indian Act precludes the assets on reserves from serving as equity for private lenders.

Growing Population with Varying Needs

The demand for services to address these needs is forecast to grow significantly because the Aboriginal youth population is growing quickly. It is estimated that sixty-eight percent¹¹ of the Aboriginal population is under 30 years old, constituting Canada's most rapidly growing population segment. It was estimated in 1998 that the percentage of this population between 21 and 30 years old was 19%, compared to 12% in the general population. More recently, the Canadian Council for Aboriginal Business has forecast that the country's Aboriginal population will double by 2015.

The 1998 study also estimated that approximately 4% of Aboriginal adults (age 15+) own a business, roughly half the national average. This relatively low proportion of entrepreneurs provides further rationale for an initiative supporting youth entrepreneurship.

More information on Aboriginal youth and entrepreneurship from the 2001 census is expected to be published by Statistics Canada in the summer of 2003. Analyses of the target populations of each DA were prepared as part of their application for AYBI funding. However, since 1996, DAs have not provided further information to AYBI on the evolution of the needs of the targeted populations. Still, there is a broad consensus among those consulted that the challenges the program seeks to address are as important as they are formidable. And there is a recognition that the needs of the targeted population are high and vary considerably, as reflected in the variety of services offered through AYBI (See Section 3.4, Client Reach).

Consistency with Federal Government and Program Priorities

There is a consensus among those consulted that the AYBI continues to be consistent with the mandate of the federal government, and those of Industry Canada and Aboriginal Business Canada. The broad range of federal programs available to Aboriginal youth is testimony to this, including those of Human Resources Development Canada, Indian and Northern Affairs Canada (INAC), Heritage Canada, the Federal Business Development Bank, and the federally sponsored National Aboriginal Capital Corporation Association (NACCA). The September 2002 Speech from the Throne provides further evidence of the government's interest in supporting youth and Aboriginal entrepreneurs, stating that by "working with youth and other partners, the government will redirect its resources in this area to develop skills for the future and to help those who face the greatest barriers to employment." The Speech from the Throne also emphasised the role of the federal government in helping strengthen the entrepreneurial and business expertise of Aboriginals, stating "The government will promote entrepreneurial skills and job creation among Aboriginal people by increasing support for Aboriginal Business Canada."

AYBI is also in alignment with ABC's strategic direction. Its National Aboriginal Economic Development Board (NAEDB) prepared an Aboriginal Youth Strategy which identified four priority areas for supporting Aboriginal youth by improving their access to capital, information, training and markets. Further, the strategy also seeks to strengthen the performance of, and networking among, Aboriginal business development organizations, which clearly include AYBI DAs.

¹¹ "Promoting the Growth of Canada's Aboriginal Businesses", Aboriginal Business Canada, Industry Canada , 1998.

There is also a very wide variety of programs available from various Aboriginal and non-Aboriginal organizations, including government. DAs often either broker access to, or deliver, these programs, which usually have different terms and conditions. As reported earlier, AYBI is delivered directly by the DAs. One of the important advantages, therefore, is that DAs can use AYBI to complement other programs. As a result, DAs can serve as a “one stop shop” for entrepreneurs as their financing requirements evolve.

ABC and others, including INAC, appear to operate their micro-credit programs in a complementary way. There appears to be general concurrence on five important aspects of the product and service mix for the youth population:

- Promotion of entrepreneurship as a career option
- Business counselling and advice services
- Mentoring
- Repayable loans
- Non-repayable contributions¹²

There was a sense among those consulted that ABC’s mandate may be viewed sceptically by others within Industry Canada (IC). This became apparent at the outset of AYBI when all IC programs were expected to contribute to innovation and trade. While AYBI may not in many instances be consistent with ABC’s priority program areas¹³ of trade and tourism, market development, innovation, and youth, the initiative did proceed because of its anticipated impact on jobs and business growth. In the longer term, it is expected that with the significant and numerous initiatives supporting Aboriginal youth, and improved performance reporting and stewardship of AYBI by its partners, that the contributions of the initiative to the Department’s mandate will become more apparent.

Filling a Gap Between Sources of Financing

While some argued that ABC should only support the DAs to pursue markets that are economically viable in the shorter term, as demonstrated in Table 3-1, the majority of interviewees feel that ABC has an important responsibility to fill the investment gap between microgrants, such as those offered by INAC, and larger programs offered by ABC and others. It was emphasized that AYBI plays an important function, in particular through its pre-care services and forgiveness component, of assisting Aboriginal youth to develop a favourable credit rating, thereby facilitating access to other sources of capital.

¹² INAC prefers to offer these as grants, in part to avoid negatively affecting a youth’s credit rating, and in part to avoid the administrative expense of collecting relatively small loans. IC, on the other hand, prefers having a forgiveness component for the last 25% of loans to encourage repayment and develop a favourable client credit rating.

¹³ In December 2002, Industry Canada announced that the criteria for eligible projects had been significantly widened.

Table 3-1: Position of AYBI relative to financing programs of NACCA and ABC

Investor / Funder				
NACCA*	NACCA	AYBI	ABC	ACCs, CFDCs, Mainstream
Aboriginal Youth Market Targeted				
14-20 years old	18-30 years old	18-30 years old	18-30 years old	All
Financing Product / Service Offered				
Promotion of entrepreneurship as a career option	Microgrants <\$3K	Microcredit <\$15K	Contributions <\$75K	Investment Capital

* Note that only Status Indians and Inuit are eligible for NACCA's First Nation and Inuit Youth Business Program (FNIYB) program. Note also that certain AYBI DAs provide services in their catchment areas to promote entrepreneurship as a career option.

Expectations of Stakeholders

Overall, the goals and objectives of the initiative are consistent with the expectations of stakeholders, although there is wide recognition that they are difficult to achieve. At the same time, based on our consultations with the DAs, it was apparent that DAs place differing priorities on serving the youth population. It was also apparent that the capability of the DAs to serve youth varied significantly. DAs cited many challenges faced by Aboriginal youth entrepreneurs, including a lack of formal education, work experience, and entrepreneur role models. The majority of DAs has difficulty drawing viable business plans from their targeted populations, even with pre-care support services, at the rate they had forecasted. On the other hand, while the number of clients interviewed was limited, they often indicated that AYBI was the only initiative that fit their needs, and that, without AYBI, the DAs would not have been in a position to be of assistance.

3.1.2 Conclusions and Recommendations

The evaluation team concluded that AYBI is consistent both with federal government priorities and those of the DAs. The initiative appears to be filling a gap between sources of financing available to Aboriginal youth entrepreneurs. A full examination of the rationale for AYBI within the mandates of its stakeholders is beyond the scope of this study. This would require a full examination of the roles and responsibilities of the many different stakeholders serving the target population. It currently falls upon the organization in direct contact with the client, the DAs of AYBI in this case, to integrate the many offerings of these stakeholders into a seamless financing of products and services package for the targeted populations. The evaluation team concluded that the innovative approach of AYBI, that of delegating responsibility to the DAs within certain pre-determined constraints, continues to be appropriate given the initiative objectives, scope and resources.

The review team also concluded that AYBI is seeking to address well-defined problems of a growing Aboriginal youth population with varying needs. However, sufficient information, such as the number of Aboriginal youth living within urban and rural catchment areas of most DAs, that would permit the assessment of these problems is not available. Such an assessment would

provide an increased understanding of the youth entrepreneur population, and therefore a more optimally designed product and service mix to serve its needs. It is expected that such information would also provide the basis for a further shared understanding among funders of such micro-credit programs.

Recommendations

Recommendation #1: That a standard market assessment tool be submitted by DAs as part of the application and renewal processes for AYBI projects. This tool should segment and quantify the targeted populations, their growth rates, the opportunities – or problem areas – to be addressed in each segment, and the number of clients that have been, and that are forecast to be, served by each AYBI product or service.

Recommendation #2¹⁴: That each DA conduct a broader assessment of the product and service mix of all the programs targeting youth entrepreneurs within their catchment area. This analysis would include:

- An inventory of entrepreneur support products and services, by funding body and program, and including important terms and conditions;
- A positioning of AYBI in the DAs' overall product and service mix; and
- A specification of the DAs' governance and accountability responsibilities for their product and service mix.

3.2 Initiative Design

“The purpose of the program is in part to discover if the client is a potential entrepreneur. ‘Is working from 7am to 11pm for you?’ In this way, AYBI serves also as career counselling.” – AYBI Program Stakeholder.

“The forgiveness clause is one of the reasons I was attracted to the program. It’s on the front page, in bold letters ‘Have 25% of your loan forgiven’...I think it is a good thing, it is a goal to work towards and an incentive to keep on top of things and give it your best effort” – AYBI Client.

3.2.1 Findings

Concerns Regarding Initiative Design

Those consulted among ABC stakeholders cited that the major economic challenges that AYBI is designed to address are:

- A gap in the availability of financing products, in the \$15,000 range, for prospective Aboriginal youth entrepreneurs;

¹⁴ Given the extensive effort that would be required to implement this recommendation, the review team feels implementation would only be appropriate if the budget for AYBI were to be increased. This matter is discussed further in Chapter 4.

- A need for incentives to the financing organization to provide such a product, given the higher risk associated with these clients;
- The intent of ABC to accelerate its contribution to trade and innovation through the support/creation of jobs, entrepreneurs and profitable companies; and
- A desire to leverage resources (i.e. the DAs) already in communities to serve this population.

DAs and clients broadly agreed with the design of AYBI. The initiative, as described earlier (see Section 1.2, AYBI Design), provides DAs with considerable flexibility in implementing the program to suit the requirements of their target population. A majority of DAs consulted still feel, however, that components of the program design not under their control require revision. The most frequently reported of these are:

- The 8.5% interest rate cap is too low; the DA should have responsibility for setting it based on market conditions, frequently reported to be at least 12% for other commercially available loans.
- The upper age limit to be eligible for AYBI is too low and should be increased to 35¹⁵.
- The \$15,000 loan limit is too low and should be increased to \$25,000.

These concerns are now examined, conclusions and recommendations are provided in the following Section.

Interest Rate Cap

The concern about the interest rate cap was raised by a majority of DAs. This concern was assessed by calculating the interest rate they would need to receive on a non-AYBI loan to obtain a revenue stream equivalent to that from an AYBI supported loan, and in consideration of the operating costs and forgiveness funds provided under the initiative.

We have based the following analysis on a loan amount of \$10,000 and the average loan period of approximately 3 years (40 months). These figures were determined from the survey responses. We also assume the nominal loan rate is 8%, and when the loan is 75% repaid, the remainder of the loan is forgiven.

In this scenario, a youth loan of \$10,000 would be financed by \$5,000 contributions from each of AYBI and a DA. Once the loan is repaid, the client will have made 29 monthly payments of \$294 to the DA, for a total of \$8,609. In addition, the DA will receive \$2,500 in forgiveness for a total of \$11,109. For the DA, therefore, this results in \$1,109 of net revenue on an investment of \$5,000. This revenue creates an average monthly return of \$37.95.

The corresponding scenario for a DA not participating in AYBI would be a loan of \$5,000 at a nominal loan rate of 12% for a period of 39 months. Once the loan is repaid, the client will have made 39 monthly payments of \$155 to the DA, for a total of \$6,062. For the DA, therefore, this

¹⁵ This finding is similar to that reported in "Formative Evaluation of the Aboriginal Business Development Program", Goss Gilroy Inc., October 2001. Referring to the Youth Entrepreneurship Development Program, those consulted added that the minimum age limit should be raised to 21-22.

results in \$1,062 of net revenue on an investment of \$5,000. This revenue creates an average monthly return of \$27.25.

As a result, the DA is better off in this example by \$10.70 per month under AYBI, assuming the DA successfully redeploys its AYBI loan capital after month 29. Thus, to generate this additional revenue, the DA would have to charge an interest rate of 16.4% on its non-AYBI loan to generate the revenue level of its AYBI loan. Alternatively, the DA could reduce the interest rate on its AYBI loans from 8% to 6.2% to generate the same revenue as it would on the non-AYBI loan.

There is, however, another factor that makes the AYBI even more attractive. The AYBI also covers the administrative costs of the loan, which would have to be covered by loan revenues for loans outside of the program. Accurate loan administration costs are not available from the data collected in this evaluation. However, an estimate would be that 10% of the operating funds provided to DAs is assumed for this purpose. The operating funds of AYBI have been about \$5.1 million over five years; therefore, \$102,000 per year has been assumed to be for administrative costs. This has supported about \$6.8 million in loans, or administrative costs of \$0.015 per \$1 of loan per year.

In the case of the \$29.25 month for a \$10,000 loan in our example, the resulting annual administrative cost is \$365. Since the DA does not pay this, it is better off by another \$12.50 per month. The DA would need to obtain 21.3% on non-AYBI loans to generate this revenue. Alternatively, the DA could reduce the interest rate on its AYBI loans from 8% to 3.4% to generate the same revenue as it would on the non-AYBI loan.

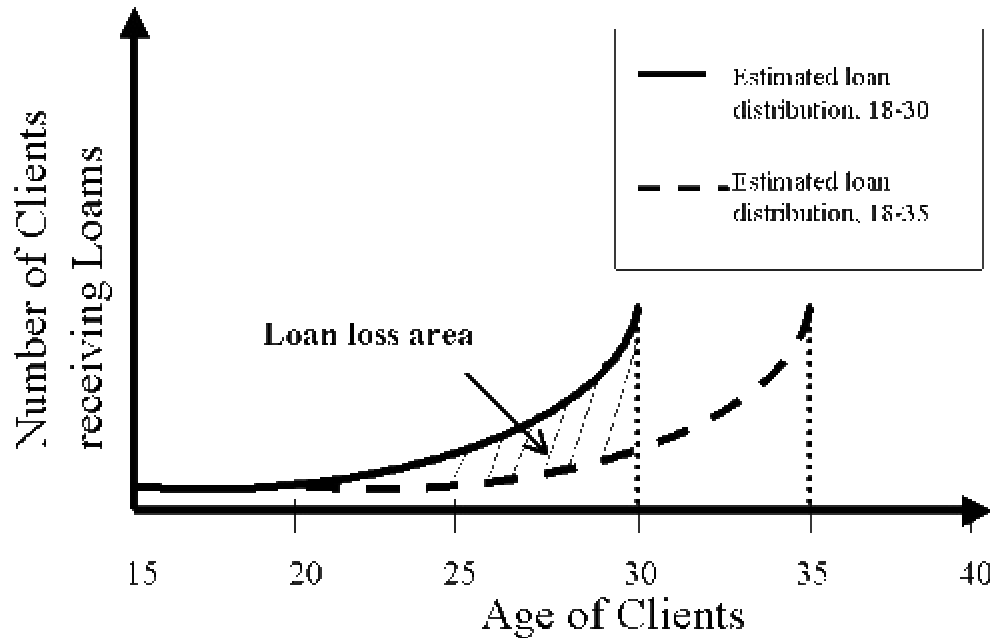
Youth Age Limit

DAs also expressed concerns the eligible age range should be increased to 35. The most frequently reported reasons for this are that the vast majority of loan clients are between 25 and 30, indicating that the loan component of the program is of greater relevance to older Aboriginals, and that other programs, including certain of those of the federal government, consider that youth include those between 30 and 35.

The evaluation team considered the implications of increasing the age limit for the program. Evidence was gathered through the survey indicating that over 60% of the AYBI clients are between 25 and 30 years old, and that a significant population exists within the DA catchment areas in the 30-35 age bracket. In fact, the proportion of clients under 25 receiving loans is 35% of the total loan client population. Figure 3-1 graphically demonstrates the likely impact of increasing the age limit. It is felt that this would significantly reduce the proportion of youth between 25 and 30 who would receive loans. This is because it is forecast that the current trend of providing loans largely to the upper end of the eligible age group would continue. Thus the distribution of the number of loans according to age would simply shift from being in the 25-30 age group to the 30 –35 age group. It is recognized by the evaluation team that the older age group would entail less risk, however it was concluded that the other elements of the program design provide sufficient incentive to compensate for the current age limit. A revision of the age limit, if it were implemented, would be expected to affect other elements of the design of the program for the 30-35 year olds, including the forgiveness component (would be reduced), the proportion of funds provided for operating costs (would be reduced), and the interest rate cap

(would be raised). In addition, the expected surge in demand would greatly exceed the current AYBI budget.

Figure 3-1: Clients who could lose loans should age limit be raised to 35.



Limit on Maximum Loan Size

We also considered the implications of increasing the loan limit to \$25,000. Concerns were raised by a minority of DAs that the current limit impedes the likelihood of success of certain entrepreneurs supported through AYBI. It is argued that by increasing the loan limit, certain clients would be able to meet the minimum investment threshold that would make the enterprise viable.

The evaluation team felt, however, that an increase in the loan limit would also result in a shift in the distribution of AYBI loan funds towards larger ventures for fewer and older clients, assuming the AYBI budget was not increased. More importantly, it was felt that increasing the limit would “reopen” the gap that the program is intended to fill, that of providing a micro-credit program for opportunities above the \$3,000 limit.

We noted that the six clients who were interviewed are satisfied with the design of the program. While a majority indicated that increasing the loan limit would be helpful, they recognize the need to reach more Aboriginal youth. No clients interviewed reported that the loan limit reduced the likelihood of their success. Finally, most DAs indicated that the loan pool available was adequate to meet the needs of the applicants, but requested more funds to support pre- and after-care services

3.2.2 *Conclusions and Recommendations*

The evaluation team concluded that the major design components of the initiative are felt to be well founded and appropriate. Specifically:

- The interest rate of 8.5% is sufficiently high to be attractive for DAs, while permitting clients to develop a credit rating.
- The current age restriction (clients must be less than 30 years old) is appropriate given the objectives of the initiative and the anticipated negative effect an age limit increase would have on the availability of services and products to those under 30.
- The total AYBI loan contribution amount of \$15,000 per client is sufficiently high to complement other micro-credit programs, such as that of NACCA, and sufficiently low to keep funds available for providing start-up funds to the targeted market of qualified early stage entrepreneurs.
- The forgiveness rate of up to 25% is sufficiently high to provide an additional incentive to both repay the loan, resulting in a favourable credit rating, and to reduce the exposure of the DAs' AYBI loan portfolio.
- The requirement for matching funds should be continued to secure the commitment of the DAs to the success of the loan, while diluting the risk to the Crown.
- Those matters relating to the loan administration process (e.g. borrower equity requirements) currently under the purview of the DA should remain so.

It was observed that other programs targeting the youth population impose conditions on DAs, such as requiring that they provide mentoring services to clients receiving loans. It was felt by the evaluation team that this is not necessary for AYBI given that there is sufficient incentive for DAs, which provide matching funding and are presumed to apply client loan instalments equally to the AYBI and their own component of the loan, to assist the client to be successful.

The review team did have a concern, however, on constraints on the use of the forgiveness component of AYBI loans to leverage funds from other programs (also referred to as “stacking”). One interviewee reported accepting only 75% of the AYBI loan as matching funds for their own contribution program, considering the forgiveness component as ineligible¹⁶. Another argued that AYBI loans should not be eligible for matching with other programs, indicating that this results in the initiative addressing a population that was not intended (see Section 3.2, Initiative Design, on the rationale for not increasing the loan size limit). A DA indicated that forgiveness funds must be used by clients as collateral for new loans. Another DA indicated that funds were not forgiven but added to the AYBI loan capital pool, without matching funds being provided by the DA, although it is the understanding of ABC administrators that AYBI funds were being used

¹⁶ This position is based on the rationale that a contribution (the forgiveness amount) should not be eligible for matching against another contribution. It is the opinion of the review team that until the forgiveness amount has been awarded it should be considered a loan, and therefore the usual stacking rules apply. Once awarded, because it is an incentive for repaying the loan, the award should also be eligible for matching with other programs because AYBI would have forgiven the funds and therefore no constraints, matching or otherwise, would apply.

for loan forgiveness. It became apparent that views differed on the eligible uses of forgiveness funds.

The evaluation team prefers an approach of facilitating best practices among Aboriginal Financial Institutions (AFI) over that of imposing additional controls. It is felt, in the longer term, that this approach will accelerate DAs becoming viable¹⁷ enterprises.

Finally, there was virtually unanimous agreement among those consulted that AYBI, in its current design, would not be viable without ongoing support for program operating costs. It was noted that only one ACC declined to apply to become a DA because it was not felt to be a viable proposition.

Recommendation

Recommendation #3: That the eligible uses of forgiveness funds, including matters relating to stacking, be communicated to AYBI stakeholders.

3.3 Service and Delivery

3.3.1 Findings

Effort Required by Delivery Agents

There is a continuing recognition of the extensive efforts required by financing organizations to identify potential clients, and the relatively low proportion of these who become loan recipients¹⁸. These efforts vary widely, in large part depending on the size of the catchment areas of DAs, and whether they are rural or urban, as illustrated in the following comment:

“I contacted my local ACC but didn’t like the services. I went to another one; that ACC has bent over backwards for me” – AYBI Client

Anecdotal evidence from interviews includes one DA that flew potential youth clients from several remote locations to attend a business planning workshop, and another that has business development officers who spend up to four days per week on the road visiting clients at their premises.

Most DAs are providing pre-care and after-care services, often including business planning and sometimes bookkeeping assistance and tax advice. DAs generally reported that the lack of business sophistication of most clients puts high demands on staff. On average, DAs reported that 2.5 of their employees spent some time delivering the AYBI program. The total time spent on the delivery of the program by those employees accounted for the equivalent, on average, of one full time position.

¹⁷ The previously referenced Goss Gilroy study reports approximately 70% of ACCs were at the breakeven point.

¹⁸ According to 2001-2002 performance data on NACCA’s First Nations and Inuit Youth Business Program, 2,123 clients received mentoring services, while 89 received micro loans.

Not unexpectedly, certain clients reported a high level of satisfaction with those services they did receive, while others were less satisfied. Loan approval processes were often lengthy, ranging from two to six months. In one case, a client raised a concern because the loan was not received in time for the upcoming season, thereby delaying the project by one year. A majority of DAs reported that operational funding supplied by AYBI did not cover the true cost to provide the necessary after-care services.

DA Understanding of AYBI

There are considerable differences in the AYBI delivery approaches by DAs. In certain instances, it would appear that some DAs have an incorrect understanding of the initiative design. Examples of these include, but are not limited to, the following:

- Two DAs reported they are charging interest rates over the maximum allowed 8.5%^{19,20}.
- One client we interviewed was unaware of the forgiveness portion of his loan.
- One ACC refused to participate in the initiative because it was understood that IC would have a seat on their Board and would approve all the members of the Board. In fact, IC may only sit as an observer on a Board, and only approves changes to the membership of Boards.
- A number of DAs objected to a supposed requirement for clients to have 10% cash equity to receive an AYBI loan. In fact, this is not a requirement stipulated by ABC (it is true of ABC's Youth Entrepreneurship Development Program), borrower equity requirements are established by the DA.
- Some DAs that require 10% cash equity of their loan clients reported using funds from another ABC program for this purpose, apparently with the approval of ABC.
- One DA reportedly uses the forgiveness component of AYBI as a cash reserve against AYBI bad debts.
- A number of DAs raised concerns that clients may not receive more than one loan, when in fact they may as long as the total loaned amount does not exceed \$15,000.
- A majority of the DAs is not clear on what the objectives of AYBI are.

Performance Information

As reported in Section 2.2.3, over the course of the review it was found that most of the DAs contacted were initially unable or unwilling to produce what was considered minimal performance information concerning their AYBI activities. A minority of DAs stated that they would have been willing to provide this information if they had been given instructions to do so at the outset of the initiative. Such instructions do appear in the contribution agreements²¹,

¹⁹ In ABC's AYBI Call for Expressions of Interest it was stated that "Interest rates in the range of 8-10% are desirable", subsequently the NAEDB set the 8.5% limit compounded monthly, which is reportedly reflected in all AYBI contribution agreements.

²⁰ Among those surveyed, interest charged in most cases was a fixed 8.5%, compounded either monthly or semi-annually. One DA reported using a variable interest rate. The lowest reported rate was 8.0%, while the highest was 9.6%.

²¹ The contribution agreements state that DAs shall obtain and retain financial and other information for the purpose of evaluating the effectiveness of the DA in carrying out its plans and reaching its target goals. In addition, the

however ABC program managers agree that a more clearly defined performance measurement and reporting strategy is required.

The evaluation team did note that, in accordance with the intent of the initiative, at its outset it may have been realistic to expect that DAs would establish appropriate monitoring systems for their own purposes. In fact, certain DAs are very diligent in asking for, and receiving, timely and appropriate performance information. Those DAs made this a priority to serve their targeted populations, to protect their loan portfolios and to help their clients' businesses should they begin to have difficulties. On the other hand, other DAs claimed they had neither the time nor the resources to perform more than rudimentary client monitoring.

Given the many municipal, provincial, Aboriginal and federal programs, policies and initiatives available to the target populations, the review team felt that the transfer of reporting to regional offices is appropriate. The initial approach of having minimal central management has proven inappropriate, as reflected in the poor responsiveness of a majority of DAs to requests from the review team for information on AYBI performance. While the purpose of this study was not to conduct an audit of the AYBI program, in numerous instances the evaluation team became concerned that certain program delivery practices, examples of which were noted above, were not consistent with the intent of the designers of the initiative.

Coordination of AYBI Delivery with Other Programs and Services

There are many programs across Canada serving Aboriginal youth entrepreneur clients. These are offered by many stakeholders, including all levels of government (and different departments within the same level of government), AFI, and the private and not-for-profit sectors. Examples include youth initiatives of Indian and Northern Affairs Canada, Business Development Bank of Canada, Human Resources Development Canada, and Community Economic Development Organizations. Examples of services offered include:

- Promotion of entrepreneurship as a career option;
- Career counselling;
- Business advisory and support services;
- Mentoring, or matchmaking services between youth clients and mentors;
- Micro-lending; and
- Provision of grants.

Virtually all consulted did not raise concerns regarding duplicate or overlapping services in matters relating to the loan component of the initiative. A minority of those consulted from ABC questioned whether the small number of youth loans might indicate that some DAs use AYBI operating funds to support other components of their business. Others reported that the small number of loans is simply a reflection of the considerable effort that is required to identify and support the targeted clientele. Still others reported a greater priority for applying operating funds

agreement states that adequate bookkeeping, accounting and monitoring systems must be in place, and that records of costs paid, interest earned, repayments received, loan forgiveness paid and interest accrued must be maintained.

towards promoting entrepreneurship as a career option, and considered successful performance indicators for these funds to be “Youth decides to find a job”, “Youth returns to school”, “Youth starts an apprenticeship program”, in addition to “Youth starts their own business with AYBI loan”.

The impression of the evaluation team from the evidence gathered is that DAs vary considerably in their approaches, targeted population, level of commitment, and capabilities. At the same time, it is clear that the challenges AYBI seeks to address are formidable, and that the needs of the different targeted populations vary widely. Certain DAs demonstrated due diligence in their efforts to ensure, for example, that the youth client is not simply “serving as a front” and passing the loan funds on to others over 30.

Best Practices

The DAs consulted reported a number of practices that they have found to be effective in AYBI implementation. Table 3-2 summarizes these, according to the purpose of the practice.

Table 3-2: Best Practices reported by Delivery Agents, by Type

Best Practices Reported by Delivery Agents
Deal flow generation
<ul style="list-style-type: none"> ▪ Using dedicated youth officers for contacting potential clients and following-up. ▪ Forming joint ventures with geographically overlapping ACCs to hire youth officers. ▪ Tasking business development officers to travel to communities monthly. ▪ Attending youth oriented events, including small business forums, career fairs and hockey tournaments to promote the program. ▪ Distributing posters and flyers to Band EDOs and youth officers of other local AFI. ▪ Training the trainers (EDOs) in local communities to help with business plan preparation. ▪ Producing videos promoting AYBI that are run on Band community access TV channels, either for free or very inexpensively. ▪ Not relying on Band leadership to pass on AYBI information. ▪ Reaching potential clients in secondary school so that they can choose business oriented courses.
Pre-qualifying clients
<ul style="list-style-type: none"> ▪ Encouraging the formulation of a vision of success and pride by the client. ▪ Ensuring that Bands or other local communities will support the clients' business through their patronage. ▪ Ensuring that proposed businesses meet the ethical standards of the local communities. ▪ Giving the potential clients self-assessment tools to determine their level of preparedness for an entrepreneurial lifestyle. ▪ Providing DA staff assistance with business plan preparation. This is very important for success, but the use of third party consultants may not be: youth may lose "ownership" of the resulting plan. ▪ Providing courses on business planning, bookkeeping and other topics, and making successful attendance at these courses a requirement to receiving AYBI loans. ▪ Providing a business library, with Internet access, to assist in the preparation of business plans. ▪ Keeping records of client contacts by location, age group and gender to ensure appropriate product and service mix. ▪ Explaining to unsuccessful applicants how a business plan should be improved to qualify.
Loan administration and reporting
<ul style="list-style-type: none"> ▪ Making monthly phone calls to clients and quarterly site visits. ▪ Requiring monthly client reporting²² ▪ Examining financial statements, prepared by external accountants, and insurance certifications, and advising on possible action. ▪ Maintaining an "open door" policy for clients and worrying if there is no contact for a month.

²² Examples of data collected and reported on by DAs include # of current loans, projected loans next quarter, client P&L (actual vs. budget), balance sheet (actual vs. projection), # potential clients served by service, by quarter, by gender, by age group, by employment status, by education status (in school or not); and # of services delivered by type (ex. workshops).

Best Practices Reported by Delivery Agents (Continued)
<ul style="list-style-type: none"> ▪ Making cheques jointly payable to the client and their suppliers to ensure proper use of the proceeds.
<ul style="list-style-type: none"> ▪ Making incremental loans (up to the \$15,000 limit) to individual clients, in order to minimize risk.
<ul style="list-style-type: none"> ▪ Dedicating Business Development Officers to assist with ongoing budgeting and bookkeeping.
<ul style="list-style-type: none"> ▪ Providing on-going business courses in such areas as marketing and customer service.
<ul style="list-style-type: none"> ▪ Creating a young entrepreneurs' self-help forum.
<ul style="list-style-type: none"> ▪ Suggesting other loan/grant programs for the more successful AYBI clients.
<ul style="list-style-type: none"> ▪ Assisting in the selection of suppliers.
<ul style="list-style-type: none"> ▪ Putting all clients into bulk buying schemes, e.g. insurance, office supplies.
<ul style="list-style-type: none"> ▪ Making clients aware that successful payback of the loan will result in 25% capital forgiveness.
<ul style="list-style-type: none"> ▪ Placing liens and mortgages on client business property.
Mentoring
<ul style="list-style-type: none"> ▪ Contracting Canadian Executive Service Organization (CESO) to mentor AYBI clients.
<ul style="list-style-type: none"> ▪ Using successful AYBI clients to mentor newer AYBI clients.
<ul style="list-style-type: none"> ▪ Paying local Aboriginal entrepreneurs an honorarium (\$150-\$200) to act as mentors.

3.3.2 Conclusions and Recommendations

The evaluation team faced a considerable challenge in collecting and interpreting service and delivery information from a majority of DAs; it was observed that they have widely varying performance measurement capabilities. It was felt that more diligence on the part of ABC in the earlier years of the program to address these shortcomings would have been appropriate. To date, one DA continues to refuse to respond to the evaluation team and ABC requests for information. As there has been a recent transfer of this management function to the regions, it was concluded that the most appropriate intervention at this time would be to obtain agreement among ABC regional offices and the DAs on a performance measurement and reporting strategy for the AYBI, as no such strategy currently exists.

Given this major shortcoming of the program, the evaluation team feels that the reporting process between ABC and the DAs requires significant enhancement, but that their current roles and responsibilities in implementing AYBI should be maintained. The performance measurement function would be improved through the development of a set of reporting tools that are agreed upon by initiative stakeholders. Also, the evaluation team was not made aware of ABC exercising its right to attend Board meetings of DAs, and concluded it would be appropriate to do so where program delivery and/or performance reporting are felt to be inadequate.

There are many differences in the AYBI delivery approaches taken by DAs. The extent to which reporting tools are adopted, and the quality of the information gathered, are dependent on the extent to which these tools measure performance in support of the strategic plans of the DAs, and are consistent with their own performance measurement tools.

The evaluation team noted that the delivery of the program is negatively affected by an incomplete or incorrect understanding of the initiative design. This is resulting in certain DAs delivering the program in a manner that was not intended. We concluded that the program design, while innovative and appropriate, is poorly communicated and/or understood by both DAs and their clients.

Finally, given the flexibility of DAs in implementing the initiative, the evaluation team concluded that there appears to be no evidence that AYBI delivery overlaps with other programs. It is expected that further assurances on this matter, including the appropriateness of the relatively high proportion of operating costs supported by the initiative, will be received as regional ABC offices become involved in initiative delivery and performance measurement improves. As well, those offices will be in a position to accelerate the transfer of best practices through their more direct interactions with DAs, and by sharing these insights among regional offices themselves.

Recommendations

***Recommendation #4:* That in addition to financial audits, reports of compliance²³ with AYBI policies be prepared.**

***Recommendation #5:* That ABC develop a model performance measurement and reporting strategy for AYBI. This strategy, and relevant reporting tools, should be developed in consultation with ABC regional offices and with DAs.**

***Recommendation #6:* That DAs include an adapted version of this model in their funding applications reflecting their corporate strategy in meeting the objectives of AYBI.**

***Recommendation #7:* That a program guide be prepared for DAs, and be published on the ABC website. This guide would include information such as:**

- **Initiative objectives and design**
- **ABC stacking rules that apply to AYBI loans and their forgiveness component**
- **Summary of terms and conditions in a typical contribution agreement**
- **Summary of terms and conditions under the discretion of DAs**
- **Respective responsibilities of DAs and ABC regional and central offices**
- **Standardized reporting forms and reporting deadlines from DAs to ABC**
- **Claims and disbursement processes, and**
- **The AYBI contribution agreement renewal process.**

²³ This is a requirement of certain federal programs, for example, the Networks of Centres of Excellence program requires both annual financial statements and annual audit reports of compliance with the administrative and financial policies of the program. Both these audits are to be carried out by an independent accounting firm (Source: www.nce.gc.ca). The intent of the recommendation is to determine how well DAs have adhered to the administrative and financial policies of AYBI in delivering the program.

Recommendation #8: That regional offices facilitate the sharing of best practices among DAs.

Recommendation #9: That, for DAs deemed to have inadequate approaches to delivering the AYBI program and/or not to be responding to requests for performance information, ABC promptly exercise the right to sit on the Board of that DA to determine the appropriate action to be taken.

3.4 Client Reach

3.4.1 Findings

Profile of Disbursements to Date

There are currently 20 DAs delivering AYBI across Canada, 12 of which are located in Western Canada, while eight are in the East. While regions are generally well covered, only one DA, Ulnooweg Development Group, serves all of Atlantic Canada.

In total, AYBI has funded 37 projects. Table 3-3 summarizes the AYBI disbursements to date, and Table 3-4 summarizes the number of projects DAs have received in each region. This is a general indicator of the extent to which targeted loan clients are actually being reached, as the vast majority of follow on projects are for funds either exclusively or mostly for additional operating funds and not for additional loan capital. Given that 17 of the 37 projects are follow-on projects, or 46% of the total, this indicates that DAs are having greater than anticipated challenges in reaching their target markets. Of note, however, is BC where only one of the five DAs has requested and received follow-on projects.

Table 3-3: Breakdown of ABC Contributions by Regions (all figures in \$ millions)

Contributions	Region		
	East	West	Total
Loan Capital (in millions)			
Approved	\$1.9	\$2.5	\$4.5
Disbursed to DA	\$1.9	\$2.0	\$3.9
% Remaining	0%	23%	13%
Capital Forgiveness (in millions)			
Approved	\$0.6	\$1.2	\$1.8
Disbursed to DA	\$0.6	\$0.9	\$1.5
% Remaining	1%	23%	15%
Operating Expense (in millions)			
Approved	\$2.1	\$3.0	\$5.2
Disbursed to DA	\$2.1	\$2.9	\$5.0
% Remaining	4%	5%	5%
Total (in millions)			
Approved	\$4.7	\$6.7	\$11.4
Disbursed to DA	\$4.6	\$5.7	\$10.3
% Remaining	2%	15%	10%

Discrepancies in the percentage totals are due to rounding.

Table 3-4: Reach of AYBI Delivery Agents and Projects by Province

Province	Number of Delivery Agents	Number of Delivery Agents Delivering:				Total Number of Projects
		One Project	Two Projects	Three Projects	Four Projects	
Ontario	4	3	0	0	1	7
Quebec	3	1	1	1	0	6
Nova Scotia	1	0	1	0	0	2
Alberta	2	0	1	1	0	5
BC	5	4	1	0	0	6
Manitoba	3	1	0	2	0	7
Northwest Territories	1	1	0	0	0	1
Yukon	1	0	0	1	0	3
Total	20	10	4	5	1	37

As reported earlier (See Section 2.2.3, Survey of Delivery Agents), extensive efforts were made to obtain information on the reach and impact of AYBI. In all, 19 of 20 DAs responded to these requests. In numerous instances, not all questions were answered, and much of the information was of poor quality. To the extent possible, assumptions were made to make the data usable, in other cases, the data had to be discarded for certain calculations. Examples of discarded information were:

- Size of population in catchment area: information was reported as a very broad range or was identified as the same number of clients served (ex. 10).
- Number of clients per service, by age group: Information was reported as a total for all services, the number of services only, or no breakdown by age group was provided;
- Loan amount information: Approved loan capital reported did not always equal open loans plus closed loans plus written off loans;
- Allowed re-payment period: Some reported ranges, in these instances the longest period was used;
- Payment interest rates: Most reported the rate but not the compound period. Rate was given as variable in one instance; and
- Number of loans: Total number of loans in some instances did not equal the total of open, closed and written-off loans.

Respondents reported populations of youth between 18 and 30 years old in their catchment areas that varied widely, from 500 to 30,000. Estimates of the population of 30 to 35 year olds ranged from 500 to 10,000. Loan pre-care services delivered to these populations included, but were not limited to:

- Business plan preparation,
- Marketing plan formulation,
- Entrepreneur training courses and workshops,

- General business training, and
- Assistance with completing government forms.

These services were examined and classified into those that are “one to one (OO)”, for example marketing assistance or business plan advice, and “one to many (OM)”, for example workshops or business plan competitions. On average, the eight DAs that provided valid data indicated having reached an average of 94 clients with OO services (median was 70). As well, five DAs reported reaching an average of 577 clients with OM services (median was also 577).

After-care services were also available at most DAs; these were accessed by roughly 41% of the clients that received pre-care services. After-care services offered included, but were not limited to:

- Mentoring,
- Business seminars,
- Preparation of financial statements,
- Bookkeeping,
- Preparation, guidance, and assistance with T4s and T4 summaries, and
- Preparation of annual reports to government (in specific areas such as agriculture).

On average, DAs who responded to the survey question on reach reported that they delivered after-care to 25 clients under 25 (median was 10) and 47 clients between the ages of 25 and 30 (median was 17). Again, one client may have received more than one service, which would result in double counting.

When all valid data for all services was included, reporting DAs indicated that their total target population for the AYBI program was 70,900 and that, overall, 7% had been reached through the program through either pre-care or after-care services. It is to be noted that one client may have received more than one service, which would result in double counting.

An analysis was also conducted to determine whether the populations targeted for loans by the DAs were served. Table 3-5 below summarizes this information for 11 respondents. Only Non-Status Indians did not participate in AYBI’s loan component, although three DAs do include this population in their target population and therefore may have benefited from other services. A further analysis was performed on the number of loans written according to population and is reported in Table 3-6. Overall, 92% of loan clients are Status Indians, dropping to 70% when removing those DAs serving only this population.

Table 3-5: Population Targeted by DAs for Loans Compared to Population Served

	Status Indians	Métis	Inuit	Non-Status Indians
Number of DAs Targeting the Population	10	3	2	3
Number of DAs Serving the Population	10	3	1	0

Table 3-6: Loan Client Distribution by Client Population Type

Status Indians	Métis	Inuit	Non-Status Indians	Total
For All Delivery Agents				
92%	4%	4%	0%	100%
For Delivery Agents Serving Métis, Inuit, or Non-Status Populations				
70%	14%	16%	0%	100%

Although the majority of DAs who completed our request for information indicated that they had only provided services to Status Indians, the overall mandate of AYBI DAs includes providing services to Inuit, Métis, and/or Non-Status Indians. This matter was investigated further, and it was determined (with the exception noted) that all respondents are serving their targeted populations to a certain extent. No evidence gathered over the course of the study revealed any bias for or against particular Aboriginal populations.

As reported later, to date 540 loans have been written with AYBI support by 19 reporting DAs. On average, DAs reported delivering their services to 15 male Aboriginal youths (median was eight), and seven females (median was six). Overall, 70% of the loans were issued to males.

Client Awareness of AYBI

DAs reported that most of their potential clients were aware of AYBI. They used a wide variety of promotional methods, including newspapers, radio and television advertising (when budgets allowed), and informing Bands' Economic Development Officers (EDOs) and officials at Chambers of Commerce so that they could promote the initiative. It became apparent in our consultations that the most effective method for promoting awareness of AYBI was by DA staff visiting schools, job fairs, and other youth venues, including hockey tournaments, and holding office hours in local communities.

Concerns were raised about the capacity of one DA to serve the Atlantic region, although it was reported that increasingly external EDOs are serving this region. Also, the absence of AYBI coverage in Saskatchewan was noted, despite considerable effort by program stakeholders to introduce this coverage. One AFI from this province indicated that they would be interested in participating in AYBI if it were to be continued.

Overall, the evaluation team observed that the practices of one DA for reaching clients were often less suited to another DA. This was a reflection of the differing priorities placed by DAs on each of the AYBI objectives. Those emphasizing the promotion of entrepreneurship as a career alternative favoured shorter promotional initiatives, targeting larger populations (presentations, half-day workshops, mass media advertising etc.). Other DAs, favouring entrepreneurship development, targeted fewer clients over an extended period (individual referrals and visits, business plan development programs - sometimes extending over weeks and involving business planning tools, and sponsoring youth business competitions).

In a number of cases, loan recipients reported being generally aware of the ACCs and CFDCs, and their mandates in supporting businesses. It was after making contact that they were made aware of AYBI, sometimes being referred to another DA.

Consideration of Merger of AYBI and FNIYB

“There is a need for better coordination among the various federal and provincial programs aimed at Aboriginal entrepreneurs. For example, one ACC delivers 10 or 15 programs including AYBI, forestry and ACC programs. ABC attempts to coordinate on a project by project basis but this is very inefficient. A good start would be to merge the INAC youth program and AYBI.” – AYBI Program Stakeholder

A minority of stakeholders consulted, both from the federal government and from DAs, indicated a desire to streamline some of the many microcredit and other programs supporting Aboriginal youth entrepreneurship. While there is general agreement between ABC and INAC on the shared role of AYBI and the First Nation and Inuit Youth Business Program (FNIYB), there are four areas where matters of common interest regarding microcredit initiatives appear to warrant continued exploration:

- *Target population:* INAC targets Status Indians, whereas ABC and other programs target Métis, Inuit and Non-Status Indians as well. Also, INAC generally places more importance on ensuring that its programs are accessible to those eligible, regardless of location, while ABC favours a more targeted approach in areas with higher growth potential. Both programs support youth up to 30 years old.
- *Loan size:* INAC seeks to support clients who need much smaller loans. A micro-credit (less than \$3,000) approach is favoured that seeks incremental growth, in contrast to the somewhat larger investments seeking higher ROIs by ABC.
- *Governance:* INAC appears to favour the delegation of micro-credit administration (through NACCA) whereas ABC prefers to be more directly engaged in the initiative administration. Both departments see ACCs and CFDCs as the appropriate delivery organizations.
- *Self-sustainability of DAs:* Due to the previous matters, there are differences of views on the viability and profitability of DAs serving Aboriginal youth entrepreneurs.

The Aboriginal Business Development Initiative (ABDI) was cited as an example of a successful multi-stakeholder program that addressed the above to the mutual satisfaction of its stakeholders, which include INAC and ABC. This initiative, like AYBI, provides enhanced access to capital to AFI through interest-rate buy downs, among other mechanisms.

On the other hand, there is considerable effort made by AFI, Community Economic Development Organizations, and regional offices of INAC and ABC, among others, to keep abreast of the many different funding sources available and ensure due diligence is maintained on all investments. Considerable effort is made by funders to provide a “one stop shop” for clients when two or more programs support different components of a single project. Currently, it is felt that there are no major gaps in services, however there is a cost to both funders and clients in dealing with multiple programs.

The evaluation team explored with those consulted the possibility of merging AYBI and FNIYB. At the outset, an effort was made by designers of both programs to transfer a budget, through votes from INAC to IC, to streamline the delivery of the two programs. While ultimately this did not occur (for reasons unrelated to policy), a concern was raised by DAs regarding the processing of payments to the DAs. In contrast to AYBI where there are relatively few reporting requirements (although this report recommends that this be changed) and therefore it is simpler, and no concerns were raised regarding cash flow, a majority of DAs involved in delivering FNIYB said they face a burdensome reporting process and considerable delays in receiving funds under that program. This latter matter has been recently addressed through an improved payment process, and the reporting process may be improved through a more automated system that is being introduced²⁴.

3.4.2 Conclusions and Recommendations

The information received on the reach and impact of the program over the course of the study was frequently of poor quality or incomplete. We were able to determine, however, that a broad range of services is being offered through AYBI to a relatively small number of clients. It was also noted that this population is generally aware that DAs offer business support programs, but often learns of AYBI once they are at the DA rather than through direct promotion of the initiative.

The evaluation team examined the possibility of merging AYBI with FNIYB to determine whether further synergy, including improved client reach, could be achieved. It was concluded that no “showstoppers” were raised on the possibility of such a merger. However, given the recent transfer of responsibility of AYBI to ABC regional offices, the evaluation team concluded that it would be premature to consider a merger at this time. It was felt that the anticipated benefits in the short term of improved coordination between regional ABC and DA youth entrepreneurship initiatives are sufficient to delay further consideration of a merger.

Recommendation

Recommendation #10: That should an inventory of entrepreneur client support products and services be prepared by DAs (see Recommendation #2), that a case study should be undertaken of a selection of three DAs (one urban ACC, one rural ACC and one CFDC, each in different regions) of the anticipated impact of the merger of AYBI with FNIYB and other youth support programs.

3.5 Initiative Short-Term Impact

3.5.1 Findings

3.5.1.1 Impacts on Youth

²⁴ A computer system has been deployed at a number of DAs to collect performance data and report it to NACCA.

Small Businesses Created

As reported earlier, interviews with clients were very difficult to coordinate and, despite repeated efforts, often were not possible to arrange. In addition, clients were selected by the DAs, and thus did not represent a random selection. The evaluation team was able to draw limited conclusions from the findings given these characteristics of the sample population. The reader is reminded that program impacts are more fully examined during a summative, rather than a formative, evaluation.

From the survey analysis it was determined that DAs received, on average, 50 loan applications (median was 32), and approved 27 (median was 21), for an approval rate of 54%. With 19 of 20 DAs reporting, and based on what are felt to be reasonable interpretations of the responses provided, it is estimated that 568 loans have been supported by AYBI with an average loan size of approximately \$10,000²⁵, and the average repayment period was 3.3 years. Approximately 52% of the loans remain open, which appears high given that the program is five years old and a higher proportion of loans were written in the earlier years of the initiative. To date, 11% of all loans have been written off; if this relatively low rate is maintained the program will have made an important contribution to clients' credit ratings.

The clients interviewed run small businesses employing an average of slightly less than three full time equivalent²⁶ (FTE) positions, including that held by the client. Positions required mostly low skills, but sometimes technical skills in a broad range of businesses. Those selected to be interviewed offer services, in areas such as custom golf club manufacturing, pet boarding and grooming, taxi service, small combustion motor (snowmobile, motorcycle) repair, lawn care and landscaping, truck delivery, sandwich shop (no longer operational), seasonal retail shop, roofing and landscaping, daycare, travel agency, and plumbing.

Business Skills of Youth Improved through Training

Many DAs provided business training for clients as a precondition to receiving an AYBI loan. Courses included business plan preparation, bookkeeping and marketing. Some DAs indicated that they would like funds to send clients on specialised business training courses.

The mentoring component was consistently reported as unsuccessful by DAs, as few mentorships were able to be initiated and those that were tended to be short-lived. Reasons cited included the high demands on the mentor, in part due to travel requirements, and a concern that they would be creating a competitor to their own business. One DA used a third party agency to provide mentoring and monitoring services with some success. Through the sharing of best practices, it is expected that the benefits to DAs successfully mentoring their clients will also accrue to other DAs.

²⁵ One DA had an average loan size of \$21,300. This DA financed amounts above the \$15,000 limit entirely from their own capital.

²⁶ One person working full-time. Thus, if a business has two half-time employees it has created one FTE.

Take Up of Loan Forgiveness

The evaluation team sought to assess the rate at which the forgiveness funds were awarded to clients. Given the relatively large number of loans that remain open, the team examined the proportion of closed loans that were forgiven. These loans are expected to be among the better performing (closed loans do not include loans that were written-off) given they have been paid off, and therefore a forgiveness rate of close to 25% would not be unexpected.

Based on the analysis of the data received however, only 12% of the amount of these loans has been forgiven. It was observed that the terms of the contribution agreements allow for ABC to reclaim funds advanced, including those for forgiveness, when appropriate. Currently, some \$1.1 million in loan forgiveness advances have not been used by the DAs.

3.5.1.2 Impacts on Delivery Agents

Delivery Agent Performance Compared to Forecast

We examined as case studies the AYBI performance forecasts for the number of loans and operating costs for two delivery agents, as indicated in their applications for funding. We then compared the forecasts with the actual performance reported in our survey.

Tables 3-7 and 3-8 below summarize the results of this analysis. It is apparent that the performances of the two DAs differ considerably. Over five years, one DA had written 49% of the number of loans it had forecast to write over three years. Over four years, the other DA had written 104% of the loans it had forecast to write over three years.

The take up of the forgiveness component of the loans is also surprisingly low given the period the program has been offered. The first DA has not used any of its forgiveness budget, because no loans are closed. The second DA appears not to offer the forgiveness component in all cases, having closed 34% of its loans but having used only 8% of its forgiveness budget. The evaluation team expected that closer to 25% of this budget would have been disbursed. Also, while we did not request that the DA report operating expenses incurred, the evaluation team expects that these are close to the amounts disbursed by ABC to the DA.

Finally, the proportion of funds disbursed to the two DAs that were received by clients appeared low. It is the understanding of the evaluation team that funds are advanced to DAs on an as needed basis. It would be anticipated therefore that the DAs would have disbursed to clients a high proportion of funds received from ABC. In fact, in one case ABC has disbursed roughly 90% of the budgeted funds to a DA for loan capital, but their clients have received roughly 60%. It is the evaluation team's understanding that these funds were being held on account for anticipated future loans. The implementation of a performance measurement strategy would likely rectify this situation.

Table 3-7: Comparison of first DA's forecast performance vs. actual

	Loan Capital	Forgiveness	Operating Costs
Approved budget compared to original DA proposal	107%	113%	185%
Proportion of approved budget disbursed by ABC to DA	94%	95%	99%
Proportion of approved budget disbursed by DA to clients	62%	0%	N/A
Proportion of forecast # of loans actually written	49%		
Proportion of loans closed	0%		
Proportion of loans written off	11%		
Extra time taken to write loans	Two years (Forecast was three years, DA has delivered AYBI for five years)		

Table 3-8: Comparison of second DA's forecast performance vs. actual

	Loan Capital	Forgiveness	Operating Costs
Approved budget compared to original DA proposal	190%	100%	133%
Proportion of approved budget disbursed by ABC to DA	88%	86%	98%
Proportion of approved budget disbursed by DA to clients	77%	8%	N/A
Proportion of forecast # of loans actually written	67%		
Proportion of loans closed	34%		
Proportion of loans written off	6%		
Extra time taken to write loans	1 year (Forecast was over 3 years, DA has delivered AYBI for 4)		

Performance of Loan Portfolios

DAs must match the AYBI loan component with their own funds. As a result, the total loans made out to this point by the reporting DAs should be \$7.6 million as ABC has provided DAs with \$3.8 million to date for loans (ABC still holds \$1.1 million in loan capital to support future payments to AYBI, see Table 1-1). Based on the survey responses, total loan capital issued by DAs to clients has been \$6.5 million, for a shortfall of \$1.1 million. However, DAs report having approximately \$1 million in loan capital advances from ABC, assuming that matching funding is provided to these funds, a further \$2 million in loans could be expected to be issued, for a total of \$8.5 million. This is \$900 thousand more than the \$7.6 million expected, indicating that DAs are possibly matching loans at a greater than 1-1 ratio. Alternatively, given the ambiguities surrounding the use of forgiveness funds, these funds may be being used to increase the loan capital pool.

DAs reported having received repayment of approximately 50% of the loan capital, and 85% of interest charged. Of the total loan capital pool, 8% has been written off at this time. DAs also indicated having forgiven 4% of the total available forgiveness capital pool. Since more than half of the loans remain open, the total amount forgiven will increase as more loans are repaid.

Based on our interviews with DAs, most feel they are close to meeting their cash flow projections for AYBI. The majority are writing far fewer loans than they originally projected, while one is writing loans at a far greater pace, which is attributed to its proactive approach and its location in a large urban area. In many cases, the operational funding allowed DAs to hire dedicated youth business development officers, enabling them to focus on this market for the first time.

Overall, based on valid data provided by nine DAs, they have an operating budget of \$192 thousand, manage a median of 25 loans, and provide services to a median of 140 youth clients. Approximately one FTE delivers the initiative, involving an average of three staff.

3.5.2 *Conclusions and Recommendations*

We interviewed clients who were identified by the DAs. Most client-related evidence gathered is anecdotal given our limited success in arranging these interviews. The businesses of the clients interviewed are still viable, though most are still in the early stages. The vast majority of the businesses supported by AYBI appear to be sole proprietorships. One DA expressed disappointment that despite considerable effort, it was unable to attract clients interested in creating professional practices, such as accounting practices.

Generally, clients interviewed report optimistic expansion plans. One DA reported that many of their AYBI clients have gone on to mainstream commercial banks for their financing needs. One client reported that their business venture would not have been possible without the after-care services of the DA and their AYBI loan.

It was concluded that the forgiveness funds that have been advanced to DAs by ABC have been disbursed to clients at a rate much less than anticipated. The evaluation team was concerned by the low forgiveness rate of closed loans. Anecdotal evidence from clients would indicate that the forgiveness component is a valued feature of AYBI, and a vast majority of DAs agreed. Given the intent of the program to develop the capabilities of entrepreneurs to successfully repay loans and develop a good credit rating, it was concluded that further measures are required to redress the situation through improved administration of these funds. Forgiveness funds could be administered in the same way as loan funds, with funding being provided on an as required basis.

Two case studies were prepared to determine the impact of the initiative on DAs. One DA has doubled its initial budget for operating costs to achieve 49% of its initial forecast number of loans, while the other has increased operating costs 33% over budget and achieved 67% of its loan forecast. The evaluation team was unable to draw further conclusions, such as the appropriateness of the amount of operating funds for AYBI compared to the number of loans issued, given the wide variety of approaches taken by DAs in delivering the initiative.

Overall, the evaluation team felt that the experience gained by DAs through the initiative has enabled them to become more efficient in screening loan applications and providing feedback to all applicants, including those applying to other programs. Also, many DAs indicated that AYBI clients had gone on to be clients of their regular loan programs and, given the success of their working relationship through AYBI, these clients are now successful in accessing the more lucrative loan portfolios of the DAs.

Recommendation #11: That ABC request that all advanced forgiveness funds be returned or deducted from future payments, and that the practice of advancing forgiveness funds be replaced by disbursing such funds on an as required basis.

4. *Summary*

Recommendations

Current funding under AYBI extended until September 2002. Based on both the important rationale for the initiative and its innovative design, the review team feels that the initiative should continue subject to the implementation of the recommendations of this report. Assuming AYBI is continued, two scenarios are envisaged: 1) that the initiative would continue to be supported at its current funding level, and 2) that the funding level would be increased. As noted in Chapter 3, ten of the eleven recommendations made in that Chapter should be implemented under either scenario, the remaining one only being implemented under the second scenario. This recommendation - recommendation #2 which would require an extensive analysis by DAs of programs in their catchment areas that support AYBI objectives - would be warranted if the budget of AYBI were to be increased.

In summary, based on the findings, conclusions and recommendations stemming from the study, improvements to AYBI are required in four areas, as follows:

1. Improving the awareness of DAs about the design of AYBI (ex. terms and conditions) and the best practices in delivering it;
2. Improving the quality of the AYBI youth market information used to forecast demand in proposals to the initiative;
3. Introducing performance measurement and reporting strategies to the initiative; and, under scenario 2,
4. Positioning AYBI by each DA in the overall mix of programs and services targeting youth entrepreneurs in the catchment areas of these DAs.

In light of these overall findings, the review team makes the following recommendations regarding the continuance of the program.

Recommendation #12: That AYBI continue to be supported at its current funding level, contingent on the implementation of the recommendations made in this report - with the exception of recommendation #2 - in recognition of the sound rationale and design of the program and the general capabilities of the DAs in serving the needs of the targeted youth population. The period of the renewal would be determined based on the amount of time required to receive better evidence on its delivery, reach and impact. This period would be defined in the performance measurement and reporting strategy.

***Recommendation #13:* That should AYBI be considered for an increased level of funding, that this funding be made contingent on the implementation of recommendation #2.**