

# **ABORIGINAL ENTREPRENEURSHIP PROGRAM (AEP)**

## **POLICY MANUAL**

**FEBRUARY 2018**

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## **FORMS AND TEMPLATES SUB-MANUAL**

### **(Under Development)**

Principal Funding Agreement, Annexes, Reports, Forms, Templates and other documents outlined in this policy manual are available from NACCA upon request.

## **1 PREAMBLE/PURPOSE**

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The purpose of this *AEP* Policy Manual is to set out the basic rules, regulations, agreements, directives, policies and procedures that govern and guide *NACCA*'s operations in the delivery of the Aboriginal Entrepreneurship Program (*AEP*). It includes a description of the objectives of the *AEP*, its background and philosophy.

The effective date of this Manual will be the date of approval by the National Aboriginal Capital Corporations Association's (*NACCA*) Board of Directors.

The *AEP Committee* will review the policies regularly, no less than annually, and provide recommendation for amendments to the *NACCA* Board of Directors for consideration.

## 2 DEFINITIONS AND ACRONYMS (in italics where used in the document)

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**ABFP** Aboriginal Business Financing Program

**Aboriginal Entrepreneurship Program (AEP) Committee** – A standing advisory committee established by the NACCA Board of Directors in accordance with its authority to do so, under By-law #5, to provide advice and guidance on program design and make decisions with respect to program administration of the AEP suite of products and services.

**ACC** Aboriginal Capital Corporation

**ACDP** Aboriginal Capacity Development Program

**A/CFDC** Aboriginal Community Futures Development Corporation

**ADL** Aboriginal Developmental Lender

**ADLA** Aboriginal Developmental Lending Assistance

**AEP** Aboriginal Entrepreneurship Program

**AFI** Aboriginal Financial Institution

An organization that upon providing evidence to NACCA is:

- A Small-Medium Enterprise (SME) Developmental Lender;
- A *capital base* of at least \$375,000 solely devoted to SME lending; and two thirds (2/3) of the *Gross Loan Portfolio* of the organization is with Aboriginal clients and is for developmental lending;
- A comprehensive set of Loan Policies and Procedures in place and employs a Loan Management System;
- A Conflict of Interest policy in place, which includes a Code of Ethics and Professional Conduct;
- Registered governance documentation (constitution and by-laws, letters patent or other incorporating documents);
- A majority of Aboriginal shareholders or members, with nothing unduly restricting the Aboriginal majority's control of the organization; and;
- Board of Directors who are majority Aboriginal, with nothing unduly restricting the Aboriginal majority's control of the Board.

**AFI Portrait** A national roll-up report based on *AFI* audited financial statements for a *fiscal year* including consolidated results related to loan portfolio risk management, loan capital utilization, economic impact and self-sufficiency.

**AgACC** An Aboriginal Capital Corporation that lends to businesses involved in the agricultural sector.

**Application** A document required for consideration of funding from any of the AEP suite of products and services (See templates in attachments).

**Capital base** Gross Loans Portfolio plus cash and short-term investments available to lend.

**Cash Flow** Periodic payments that NACCA makes to the recipient on behalf of the Government of Canada in accordance with its funding agreement with *DIAND* and *funding-agreements* with *AFIs*.

**Committed Project (In context of ABFP)** A *committed project* is a viable project for which a funding agreement, signed by the *AFI Regional Lead's* representative, is offered to the client and accepted by the client by virtue of his/her signature on the same agreement.

**Connected borrowings** Loans which share either borrowers, common security, covenants, or guarantors.

**Contribution** Funding paid to an *AFI* under a *funding-agreement* with *NACCA* which is non-repayable except under *ABFP* where an *AFI Regional Lead* provides non-repayable *contributions* to Aboriginal entrepreneurs.

**Developmental Loan** Is a business loan that is provided to Aboriginal entrepreneurs or business entities owned and controlled by Aboriginal people or communities that face difficulty in obtaining business financing from a mainstream commercial financial institution.

Access to commercial loans and other forms of commercial financing by Aboriginal people and communities may be impaired by such factors as: lower income and savings, limited business experience, lower educational levels, inadequate collateral, smaller consumer markets, rural and remote locations, security restrictions (Section 89, Indian Act) and higher debt to equity ratios.

Developmental loans do not include residential or passive mortgage loans, personal loans or personal lines of credit of any nature, or loans and financing of any kind that will not be used directly for the purpose of business development.

**Dual AFI's** *AFIs* that are both an Aboriginal Capital Corporation and an Aboriginal Community Futures Development Corporation.

**Eligible Application (In context of ABFP)** An application deemed eligible through individual *AFI* processes including verification of adequate credit score and any required screening for viability.

**Eligible AFI** An *AFI* that meets the *NACCA* and Government of Canada's requirement to be in good standing and which has submitted audited financial statements to *NACCA* for each year within 120 calendar days of its *fiscal year* end.

**Eligible Claim** A template submitted to *NACCA* for payment of *contributions* eligible as per the policies contained in the *AEP* Policy Manual.

**Fiscal Year** Unless otherwise stated, "*fiscal year*" is the Government of Canada's *fiscal year* which is the one-year period beginning on April 1<sup>st</sup> of one calendar year and ending on March 31<sup>st</sup> of the next calendar year.

**Gross Loan Portfolio (GLP)** Total dollar value of loans outstanding without reduction for allowances or provisions.

**Indigenous and Northern Affairs Canada (INAC)** [aka DIAND; Department of Indian Affairs and Northern Development Canada]

**IRB** Interest Rate Buy-Down

**Membership Policy** A formal process undertaken to determine if an organization meets the criteria established by *NACCA* for membership as an *AFI*.

**NACCA** National Aboriginal Capital Corporations Association

**NAICS** North American Industry Classification System (SIC Code)



**Operating subsidy** Funds provided by Government or any other source to offset all or a portion of an *AFI's* operating costs.

**Project/Initiative** An activity as described in an *application* to an *AEP* product.

**Project Completion Date** The last day for which an approved *AEP* project is eligible to claim expenditures.

**Project Disbursement (In context of ABFP)** A payment made to a client for a *committed project* based on an *eligible claim* including required documentation of cost(s) and proof of payment of the same cost(s).

**Project Start Date** The date on which an approved *AEP* project is eligible to begin claiming expenditures.

**Project Term (In context of ABFP)** The period during which a *committed project* is eligible to submit claims for expenditures as allowed for in the funding agreement between the client and the *AFI Regional Lead*.

**PSF** Project Summary Form is used in *AFIs* assessment of business cases applying to the *ABFP* or for other financing.

**Quality Assurance Review (QAR)** A Quality Assurance Review is an internal review process to ensure *AEP* is;

- accountable to the NACCA Board and Committees, *AFIs*, key stakeholders and the Government of Canada;
- ensures that due diligence is exercised in the administration of program funds;
- confirms management, program coordinators, *AFIs* and others have an understanding of whom is eligible, what funding is available, under what conditions, for what purpose and for what amount program funding is allocated;
- confirms that the quality of delivery processes, policy adherence, approvals and reporting that is relevant to all parties; and,
- demonstrates a continuous search for best practices to be shared amongst the *AFI* network.

**Regional Lead** A term to describe an *AFI* in a region who enters into a *funding-agreement* with *NACCA* for administration of the Aboriginal Business Financing Program and collaborates with other *AFIs* on delivery and promotion of the program.

**Short term loan** A loan provided for a term of 12 months or less.

**SME** Small-Medium Enterprise

**Source Documents** Supporting documentation required for an *eligible claim* that must be retained by the *AFI* and be readily available/visible in *AFI* files for quality assurance review and auditing purposes.

**Funding Agreement** A legal document outlining the relationship between *NACCA* and *AFIs* that considers the terms of the principle agreement between *NACCA* and *INAC*.

### 3 BACKGROUND

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#### 3.1 Aboriginal Entrepreneurship Program (AEP)

The guiding principles established for the program include:

- 3.1.1 Community ownership and commitment;
- 3.1.2 Responsiveness and relevance to all Aboriginal business clients;
- 3.1.3 Recognition of the unique aspects of different Aboriginal business markets;
- 3.1.4 Utilization of existing structures and increasing institutional capacities where possible;
- 3.1.5 Encourage the use of partnerships to create innovative solutions;
- 3.1.6 Ensure mutual benefits for all partners;
- 3.1.7 Aboriginal business ownership and control; and,
- 3.1.8 Structural equity and impartiality.

The NACCA Board of Directors formed the *AEP* Committee to provide advice and guidance on the program. The *AEP Committee* is advisory to the NACCA Board of Directors, guided by an approved Terms of Reference.

#### 3.2 AEP Overview

The *AEP* involves a comprehensive range of complementary components designed to strengthen the network of Aboriginal-controlled developmental lending institutions and to foster increased availability and affordability of capital for developmental lending. The Aboriginal-controlled developmental lending institutions include Aboriginal Capital Corporations (*ACCs*), and Aboriginal Community Futures Development Corporations (*ACFDCs*), collectively called Aboriginal Financial Institutions (*AFIs*). *Dual AFIs* have components of both the *ACC* and *CFDC* models.

The components within the *AEP* include:

##### 3.2.1 Aboriginal Capacity Development Program

A developmental lending support and training initiative providing generic products and services for the *AFI* network; and, customized products and services for individual *AFIs*;

##### 3.2.2 Enhanced Access Loan Fund

A loan fund, for areas not serviced by *AFIs*, that provides capital and overhead costs associated with the loan to *AFIs* who chose to service those areas;

##### 3.2.3 Interest Rate Buy-Down

A subsidy provided to *AFIs* with low liquidity ratio to offset the interest costs for accessing capital for additional developmental lending.

### **3.2.4 Aboriginal Developmental Lending Assistance**

A program to enhance *AFI* financial sustainability by assisting *AFI*'s to close the gap between revenue generated by the consolidated developmental *AFI Gross Loan Portfolio* and the costs *AFI*'s incur providing developmental lending and related business support; and,

### **3.2.5 Aboriginal Business Financing Program**

A program to provide equity financing to Aboriginal businesses in order to increase the number of Aboriginal businesses in Canada.

## **3.3 INSTITUTIONAL FRAMEWORK**

The roles and responsibilities of the *NACCA* Board, *AEP* Committee and *NACCA* Management:

### **3.3 Program Manager**

3.3.1 *NACCA* will manage delivery of the *AEP* products and services:

- 3.3.1.1 Aboriginal Capacity Development Program;
- 3.3.1.2 Enhanced Access;
- 3.3.1.3 Interest Rate Buy-down;
- 3.3.1.4 Aboriginal Developmental Lending Assistance; and,
- 3.3.1.5 Aboriginal Business Financing Program.

3.3.2 *NACCA* will be responsible for:

- 3.3.2.1 *Application* and claims processes;
- 3.3.2.2 Data collection and analysis on *AFI* operations;
- 3.3.2.3 Advocacy on behalf of the *AFI* community; and,
- 3.3.2.4 Needs assessment, research and product development with respect to the design and delivery of financial products and services.

### **3.4 Program Oversight Functions**

The *AEP* Committee provides oversight to the delivery of the *AEP* suite of products based on its terms of reference.

3.4.1 *AEP* Committee Role and Responsibilities:

- 3.4.1.1 Ensure program activities are consistent with the *AEP* policy framework;
- 3.4.1.2 Review *AEP* quarterly reports; and,
- 3.4.1.3 Hear grievances and provide related decisions to appropriate parties, and report to the Board.

3.4.2 *AEP* Committee Recommends to the *NACCA* Board:

- 3.4.2.1 Policy manual amendments and revisions as required from time to time;
- 3.4.2.2 Reallocation of resources across program components;
- 3.4.2.3 Review and acceptance of reports on *AEP* operations and activities; and,
- 3.4.2.4 Options for enhanced program design.

### 3.4.3 Frequency of Meetings and Communications

Committee meetings will be held on a quarterly basis (or as needed) to review program management reports and consider related issues. Minutes, notices, bulletins and other communication instruments documents will be distributed to ensure the activities of the AEP Committee are open and transparent.

### 3.4.4 Quorum

The presence of a majority of the Committee members constitutes a quorum for a meeting of the Committee.

## **3.5 Appeals, Disputes and Grievances by AFI, AFI clients and others**

### **3.5.1 AFI Client Appeals, Dispute or Grievance Process**

Decisions made by the management and staff of an Aboriginal Financial Institution on any program administered by an AFI are the sole responsibility of the AFI and any appeals, grievances or disputes must be made to the Board of Directors responsible for overseeing the operations of the AFI.

### **3.5.2 AFI Member Appeals, Dispute or Grievance Process**

#### **3.5.3 Purpose**

This AFI member process is established to assure that Aboriginal Financial Institutions (AFIs) have full and equitable access for addressing their concerns regarding the interpretation of AEP policies and procedures by the Aboriginal Entrepreneurship Program Committee.

#### **3.5.4 Process**

##### a) Posting and Distribution of Policy

A copy of this policy and/or statement will be provided to any AFI who requests it and it shall be clearly posted on the NACCA website.

##### b) Process

An AFI shall be provided with an opportunity to discuss their concerns with in person or by phone with the CEO for NACCA. The discussion or meeting should take place as soon as possible, but within no more than five (5) business days of the complaining party's request, unless the complaining party requires additional time.

In the event the complaint is not resolved within five (5) business days after discussion or meeting with the CEO. The CEO shall, if requested to do so by the complaining party, arrange an opportunity for the complaining party to submit a written complaint to the Chair of the NACCA Board.

Where a complaint concerns an AFI and where the Board member has an affiliation with the AFI. The Board member will declare a conflict of interest and reclude themselves from any upcoming hearing.

The hearing must be held within twenty (20) business days of the receipt of the written complaint by the Board Chair. At the hearing before the NACCA Board, the complaining party may;

- i) Be present in person or by tele-conference
- ii) Present written or oral statements, and
- iii) Submit a follow-up written statement after the hearing.

The NACCA Board will also allow;

- i) NACCA staff and/or AEP Committee members involved in the complaint to be present in person or by teleconference
- ii) NACCA staff and/or AEP Committee members to present written or oral statements
- iii) Conduct a closed hearings and determine who may be in attendance to maintain confidentiality
- iv) Conduct the hearing in a professional and orderly manner
- v) The hearing to be recorded by electronic means, and
- vi) Provide the complaining party, NACCA and/or AEP Committee members involved, Director of Products and Services, and the CEO with written findings on the outcome of the complaint. These findings will be issued within ten (10) business days after the hearing concludes.

**Note:** The findings of the NACCA Board are final and binding on all parties involved.

### **3.6 Other**

Where an appeal, dispute or grievance involves an organization or individual not identified as an AFI Client or an AFI. The Director of Products and Services in conjunction with the complaining party will review the processes in use by the AEP Policy Manual at the time of the complaint to determine what process should be undertaken to address the appeal, dispute or grievance.

### **3.7 Records of Complaints**

In each instance in which a complaint is considered pursuant to this process, copies of all written documents relating the complaint and copies of summaries of conversation, meetings and hearings shall be maintained on file at the NACCA office.

The Board will receive at least annually a report describing the appeals, disputes and grievances registered during the previous year.

## 4 POLICY FRAMEWORK

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### 4.1 Reporting requirements

Reporting requirements are established in the *contribution* agreement between *INAC* and *NACCA* and the funding agreements between *NACCA* and *AFIs*.

*NACCA* will provide an update to *AFIs* on the management of the Aboriginal Entrepreneurship Program at a minimum of twice per fiscal year.

### 4.2 Conflict of Interest/Code of Ethics

4.2.1 *NACCA* shall not make a *contribution* out of the funds under its management and administration to any person or any group of persons, who are associated, where such person or group of persons has the ability to control or influence *NACCA* and is part of the decision-making process.

4.2.2 *NACCA* Directors and Officers, members of the *AEP* Committee and management are deemed to have the ability to control or influence *NACCA*; therefore, they shall:

- (i) Absent themselves from any and all discussions, deliberations and voting in respect of any *contribution* to any *AFI* in which they have an interest; and
- (ii) Neither directly or indirectly attempt to influence, lobby or persuade, or provide any additional information to the staff or Board.

4.2.3 Any *contribution* that is prohibited if made directly, is similarly prohibited where the *contribution* is conducted through a third party or through a sequence of transactions involving third parties.

4.2.4 Any *AFI* accessing products and services under the *AEP* must have a conflict of interest guideline similar to that described in this section and as outlined in the funding agreement.

### 4.3 Operating policy

#### 4.3.1 Principal Funding Agreement

4.3.1.1 Each *AFI* wishing to access products and services through *NACCA* is required to sign a funding agreement which forms the base of the legal obligations between the two parties.  
[Principal Funding Agreement between *NACCA* and *AFI*].

4.3.1.2 As products and services are accessed, a Project Description will be issued detailing approved budgets, project details, *cash flow* and other specific legal obligations as required.

4.3.1.3 No obligation is legally binding unless the appropriate Funding Agreement and Project Descriptions (s) are signed by both parties.

#### 4.3.2 Application Process

Each AEP product will require an *application* process. *Application* deadlines will be communicated to the AFI network as applicable.

#### 4.3.3 Approval Authorities

4.3.3.1 AEP applications/documentation provided by AFIs signed by a designated alternate to be accepted.

4.3.3.2 Projects are approved based on NACCA signing authorities and require sign-off by the appropriate Project Administrator/Coordinator, Director, Products and Services, and the Chief Executive Officer and must be in compliance with NACCA's financial framework.

4.3.3.3 The AEP Delegated Authority Framework establishes the level of delegated signing authority for AEP is based on the total contribution amount to an AFI recipient or project. The level of delegated signing authority is required on the appropriate AEP authorization form, and/or any substantive amendment(s) to the principal funding agreement, including any of its annexes, are as follows:

- **\$1 to \$50,000;** AEP Program Coordinator or equivalent
- **\$50,001 to \$1,000,000;** Director of Products and Services or Chief Executive Officer
- **Over \$1,000,001;** Chief Executive Officer or two (2) Management Team Representatives.

4.3.3.4 A substantive amendment includes:

- Increase in amount (\$) or percentage (%) of a contribution,
- Alterations of repayment terms,
- Changes to disbursement conditions,
- Change in the completion date greater than 6-months,
- Change to statement of work in the project description,
- Reallocation of cost estimates for more than 20%, and
- Any other substantive amendment(s) as deemed by NACCA.

Substantive amendments must be approved by the same level, as is required in the delegated signing authority (Section 4.3.3.3).

#### 4.4 Client confidentiality

The dealings of individual AFIs with the AEP Committee and NACCA will be held in strictest confidence by staff, Executive, Directors and AEP Committee members and may not be communicated to other AFIs or individuals, with exception of information that is necessary to meet the reporting requirements of the Government of Canada under the respective funding agreement.

#### **4.5 Policy Amendment**

Where users believe that certain items in the *AEP Policy Manual* require change, a request should be made in writing to the *AEP Committee*, setting out the existing wording, the suggested revision, and the rationale for the proposed change.

Presentation(s) to the AEP Committee for requests for policy amendments by an AFI or AFIs are to be circulated to the requesting AFI or AFIs prior to the AEP Committee meeting for information and input in advance of the regularly scheduled AEP Committee meeting.

Where applicable, technical policy amendments may be reviewed by the Technical Advisory Group for a recommendation to the AEP Committee.



## **5 QUALITY ASSURANCE REVIEW**

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To undertake a file-based review of the Aboriginal Entrepreneurship Program (*AEP*), delivered by *NACCA*, that will identify the strengths and weaknesses of delivery of the various products and services, determine the causes of program integrity issues, recommend solutions, record improvements or setbacks based on the results of previous reviews, provide management with an independent perspective on delivery of products and services; and, demonstrate commitment to continuous improvement. A Quality Assurance Review (*QAR*) Framework and tools have been developed to guide the work. Any *AFI* accessing funding under the *AEP* must participate in the *QAR* process, when requested to do so.

The *AEP* Committee will review, accept and recommend to the *NACCA* Board the distribution of final *QAR* Reports to individual *AFIs* and the posting of an all-purpose *QAR* Report for the *AFI* network and other interested stakeholders.

## 6 ABORIGINAL CAPACITY DEVELOPMENT PROGRAM (ACDP)

### 6.1 Description

*ACDP* offers generic products and services designed to enhance the capacity of Aboriginal Financial Institutions, optimize efficiencies, and increase their capacity to engage in developmental lending. The fund can also be used to address individual training and development opportunities that may be identified by *AFIs* that meet the objective of increasing developmental lending activity.

### 6.2 Limits to Eligible Costs

- 6.2.1 100% of eligible costs to be paid up to an annual maximum of \$25,000 (not including Strategic Planning) unless restricted by other requirements in this section.
- 6.2.2 Beyond the \$25,000 annual maximum in the bullet above, *applications* by *AFIs* who have not utilized their maximum will be prioritized.
- 6.2.3 *AFIs* approved for projects beyond the \$25,000 maximum will be eligible for reimbursement at a maximum of 50% of eligible project costs provided funds are available within the approved budget.

### 6.3 Eligibility

#### 6.3.1 Types of Eligible costs

- 6.3.1.1 Subject to other eligibility requirements, eligible costs may include products and services, consultants, and *NACCA* approved training costs.
- 6.3.1.2 Establishing a “best practices” database on the *NACCA* web site for all *AFIs* to access *ACDP* products is eligible.

#### 6.3.2 Multi-*AFI Applications*

Where a group of *AFIs*, nationally or regionally, require funds for an activity or purchase that would positively impact developmental lending for each organization:

- 6.3.2.1 One *AFI* in the group should lead the project and submit an *application* with letters of support from the other *AFIs* impacted;
  - 6.3.2.1.1 Each *AFI*'s annual maximum (see Section 7.2.1) shall be impacted by a pro-rated share of the cost;
- 6.3.2.2 Requests for multi-*AFI* projects in excess of \$25,000 must be reviewed by the *AEP* Committee to receive a motion to proceed;
- 6.3.2.3 The purchase of loans and finance reporting systems, excluding *ACCPAC*, and/or maintenance agreements can be authorized by the *NACCA* Board at a bulk price to be negotiated by *NACCA* on a best efforts basis;
- 6.3.2.4 The Chief Executive Officer approves annual renewals of the agreements under section 7.3.2.3 unless otherwise directed by the *NACCA* Board of Directors; and,
- 6.3.2.5 Costs for conversion must be considered on a case by case basis.
- 6.3.2.6 General Managers'/Chairs Meetings
  - 6.3.2.6.1 *AFI* General Managers' (GMs) meetings will not impact each *AFI*'s annual maximum (See Section 7.2.1).

- 6.3.2.6.1 *AFI* General Managers'/Chairs meetings will be eligible if there is a clear purpose for the meeting in relation to the Aboriginal Entrepreneurship Program products and services, policy and/or direction; demonstrated by an agenda and meeting report, including outcomes achieved.
- 6.3.2.6.2 Eligible costs for reimbursement from *AEP* by *NACCA* to General Managers/Chairs and/or their *AFIs*, for up to two representatives, is limited to a maximum of 75% of the total cost of meals, travel and accommodation based on the *NACCA* Travel Policy and using the most cost-effective means of travel.
- 6.3.2.6.3 Eligible *NACCA* or *AFI* costs for organizing the meeting would include the meeting venue costs and a 10% administration fee (of the overall cost of the meeting) to handle the organizational duties related to the GMs meeting.
- 6.3.2.6.4 Funding will not be provided for any related social events, or expenses related to those events.

### 6.3.3 Strategic Planning

Funding for Strategic Planning is limited to a maximum of \$25,000 every three years; this is in addition to the limits under Section 7.2. For clarity, more than one *application* for Strategic Planning is eligible in every three year period provided the total paid out for projects is a maximum of \$25,000 based on the total paid out in the past 2 *fiscal years* plus the *fiscal year* in which the *application* is made.

### 6.3.4 Other planning activities

Other planning activities related to developmental financing; for example, analysis of new market opportunities and related concept development for revenue-generating products/services will be eligible outside of the specific allowance for Strategic Planning but within the limits of Section 7.2.

### 6.3.5 International Organization for Standardization (ISO) Certification

ISO training and certification is an eligible activity on a cost-shared basis where the *ACDP* funds 50% of the eligible costs and the *AFI* funds the balance.

### 6.3.6 Post-Secondary Degree/Diploma Programs

Individual components of a degree/diploma program are generally eligible for *AEP* assistance on a case by case basis provided that it is supported by the *AFI's* identified training plan to increase their capacity to engage in developmental lending.

### 6.3.7 Skills / Career Development

A skill is the learned ability to carry out a task with pre-determined results often within a given amount of time, energy, or both. Skills can often be divided into domain-general and domain-specific skills.

Career development training represents domain-specific skills and is eligible provided the *AFI* demonstrates in its *application* that the training is directly related to the *AFI*'s training plan, the medium-term potential for the individual with the *AFI* and its developmental lending capacity.

#### 6.3.8 Workshops

Eligibility is restricted to workshops that satisfy all of the following additional criteria:

- 6.3.8.1 Completely (100%) focused on developmental lending and delivered by a qualified trainer/facilitator as demonstrated by an agenda and biography/curriculum vitae;
- 6.3.8.2 Facilitator fees are a maximum of \$3,000; and,
- 6.3.8.3 Provide documentation on completion including final report and summary of evaluations [Final ACDP Report Form and ACDP Claim Form].

#### 6.3.9 Board Training

- 6.3.9.1 Board training should be guided by those Board oversight and challenge functions which are incorporated in the *NACCA* Board member custom training module.
- 6.3.9.2 Provided the *application* demonstrates training could not be delivered remotely; Board travel is reimbursable at 50%, and incremental meals and accommodation at 100% based on the *NACCA* Travel Policy.

#### 6.3.10 *AFIs* as Consultants

Qualified *AFI*'s may be employed as consultants provided it is clear the work being undertaken is outside the usual daily administration or operation of the applicant and that any consultant to be engaged is at arm's length from the applicant.

### 6.4 Ineligibility

#### 6.4.1 Costs related to Non-Compliance with Government are ineligible

Assistance with costs related to rectifying areas of non-compliance with the *AFI*'s *contribution* agreement(s) with government (federal, provincial, municipal and/or Aboriginal governments) are ineligible.

#### 6.4.2 Costs paid by another source

To ensure against payment from two sources, *AFIs* will attest that they are not receiving payment from any other source for the same purpose.

#### 6.4.3 Travel costs

Generally, capacity development activities should be local and travel is ineligible. If the *AFI application* includes justification for the activity to be undertaken elsewhere a maximum of 50% of total travel costs is eligible, as per the *NACCA* Travel Policy.

#### 6.4.4 Other specific Ineligible Costs

6.4.4.1 Costs incurred before the *Project Start Date* or after the *Project Completion Date*.

6.4.4.2 Costs associated with the normal daily administration or operation of the applicant (e.g., HR Policy, Non-developmental Lending Policy and Procedures, etc.).

6.4.4.3 Board or staff honorarium.

6.4.4.4 Professional enrolment, examination and accreditation fees.

6.4.4.5 Costs associated with attendance at conventions or conferences.

6.4.4.6 Costs associated with an activity solely necessary due to the incumbent's position.

6.4.4.7 Hardware and licensing costs.

6.4.4.8 Software *applications* not related to the developmental lending function of the *AFI* including but not limited to accounting software.

6.4.4.9 Software maintenance and support fees.

6.4.4.10 Community economic development initiatives defined as:

Action by people locally to create economic opportunities that improve social conditions, particularly for those who are most disadvantaged. CED is an approach that recognizes that economic, environmental and social challenges are interdependent, complex and ever-changing. This clarifies that ineligible activity is not specific to business development (start-up, growth, expansion) but to activity that creates opportunity for specific businesses that may require developmental lending.

6.4.4.11 Executive/leadership and other courses over several weekends, weeks and/or months that offer 'training' specific to the incumbents position are ineligible. If the training is part of a succession plan, it may be eligible with a Board motion to support identification of the individual and to approve a proposed succession plan including the specific training/mentoring/job shadowing or other requirements with estimated costs and timing of each.

### 6.5 Project Application and Funding Agreement

#### 6.5.1 Timing of Applications

6.5.1.1 *Applications* must be submitted a minimum of 10 working days prior to the *project start date* as indicated on the *application* [ACDP Application] in order to receive a response prior to incurring any cost.

6.5.1.2 Retroactive *applications* are ineligible.

#### 6.5.2 Authorization

6.5.2.1 *Applications* are logged into NACCA's AEP management system and reviewed against a checklist [ACDP Application] which incorporates the key eligibility conditions.

6.5.2.2 Once recommended by an AEP Products and Services Administrator and/or the Program Coordinator, the *application* is forwarded for authorization.

6.5.2.3 NACCA has established differing delegated approval authorities to the Director, Products and Services and Chief Executive Officer. The funding level recommended by the Program Coordinator determines the appropriate NACCA signing authority.

6.5.2.4 In particular circumstances, as outlined elsewhere, NACCA may require approval of the AEP Committee.

### 6.5.3 Funding Agreement

6.5.3.1 Should the proposal be acceptable to NACCA, and duly authorized per Section 7.5.2, a funding agreement [Principal Funding Agreement ], Project Description, Payment Plan, Reporting Requirements and Due Dates and/or notice of *funding* adjustment will be provided to the AFI applicant detailing *project start date*, *project completion date*, description of activity, terms, conditions and dollar value of the authorized financial support with a budget.

6.5.3.2 The AFI applicant must ensure the signed/initialed documents are returned to NACCA within 45 calendar days from the date of on the documents or the financing offer becomes null and void.

## 6.6 Claims

### 6.6.1 Claim Submission

6.6.1.1 AFIs are eligible to submit claims for previously approved projects on completion of the project and in conjunction with the submission of related reports, certification of completion, and copies of full documentation on the related expenditures as outlined in the funding agreements.

6.6.1.2 AFIs should submit non-proprietary tools and reporting to NACCA to support continuous improvement and best practices within the AFI network. Contracts with third parties should include a clause providing permission to the AFI to do this.

6.6.1.3 The claim must be submitted no later than 45 calendar days after the *Project Completion Date* or, for project activities approved within 45 calendar days prior to NACCA's *fiscal year* ending March 31, on or before April 28 of the same year.

## 6.7 Reporting requirements

As it is important that ACDP funds be expended on appropriate projects, at the conclusion of the project the recipient AFIs will provide a full accounting of the project costs [ACDP Claim Form] and complete NACCA's report template [ACDP Final Report Form]. The project outcomes will be compared, expected versus actual, and the AFI/participants will provide recommendations on whether the activity, consultant, facilitator, or any other pertinent aspect of the activity, should be considered for other staff and/or other AFIs.

NACCA staff will report quarterly to the AEP Committee on the funds disbursed through the ACDP and the nature of the projects funded.

## **6.8 Default**

Default arises if the applicant *AFI* does not spend *ACDP* funds for the purpose for which they were requested. Until such funds are repaid to *NACCA*, the *AFI* remains in default and is ineligible for any further funding under the Aboriginal Entrepreneurship Program until the default is rectified.

## **6.9 Failure to Provide Financial, Non-Financial Reports and Payment Claims required by NACCA**

- 6.9.1 NACCA can withhold, request repayment, cancel or decommit any funds owed to a recipient when the report(s) and/or payment claims outlined in the principal funding agreement or in any of its annexes has or have not been submitted within 90-days of the end of the quarter (June 30, September 30, December 31, and March 31).
- 6.9.2 NACCA can withhold, request repayment, cancel or decommit any funds owed to a recipient when the year-end financial statements and/or schedules outlined in the funding agreement or in any of the its annexes are not submitted within 180-days of the fiscal year-end (March 31).

## 7 ENHANCED ACCESS

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### 7.1 Description

*AFIs* serve defined territories and/or Aboriginal groups and, as a result, some areas and/or Aboriginal groups of the country have no access to a source of capital for developmental lending; this includes communities in geographically remote areas of defined territories not receiving services directly in the community. To fill these gaps, an Enhanced Access (EA) loan fund is available for *contributions* to *AFIs* providing developmental lending to Aboriginal businesses in those areas or to those Aboriginal groups not serviced.

This loan fund component will be used for two purposes:

- i. To provide repayable, interest-free loans to *AFIs* to enable them to make loans to viable Aboriginal businesses; and,
- ii. To provide non-repayable operational subsidies to *AFIs* to offset their incremental transaction costs related to such loans.

### 7.2 Eligibility

#### 7.2.1 Eligible Costs

Eligible Costs for EA are the capital funds with which *AFIs* or other business development organizations can make loans to viable Aboriginal enterprises, and operating funds for processing the loan transaction(s), loan monitoring, pre- and post-care, and travel costs associated with the due diligence required for such loan and for registration of security, collection and security liquidation costs incurred for such loans.

##### 7.2.1.1 Maximum loan size

The maximum dollar amount of capital funds per loan is \$250,000, or equal to the lending limit of the applicant *AFI*, whichever is less.

##### 7.2.1.2 Operating Subsidy

The non-repayable operational subsidy will be standardized at a maximum of 10% of the loan principal.

##### 7.2.1.3 Funding Sources

NACCA's standard EA *Application* will require *AFIs* to attest that they are not receiving payment from government for the same purpose.

##### 7.2.1.4 NACCA Expenses

NACCA has the authority to retain independent third party advisors to assist it and may recover any out of pocket expense from the EA fund provided reported regularly to the *AEP Committee*.

#### 7.2.2 Eligible Applicants

The EA product will be available only to qualified *AFIs*.



#### 7.2.2.1 Conditions of *AFI* Qualification

- Have demonstrated adequate internal loans administration systems;
- Are in compliance with the terms of any current agreements; and,
- Have received requests for lending services from Aboriginal group not serviced or aboriginal entrepreneurs in an area not serviced.
- Accept the required administrative controls.

### 7.3 Project *Application* and Funding Agreement

#### 7.3.1 *AFI* Approach *NACCA* before Proceeding

An *AFI* wishing to provide lending services in an area not serviced must approach *NACCA* with an *application* [EA Application, EA Due diligence checklist and EA Loan project impact template] for loan capital on a case by case basis. *NACCA* will confirm the area and/or Aboriginal Group is not served by an *AFI*. In all cases *NACCA* is to be approached before the *AFI* proceeds with due diligence or makes any commitment to lend. The applicant *AFI* is expected to undertake its normal due diligence in serving such clients.

#### 7.3.2 Authorization

7.3.2.1 *Applications* are logged into *NACCA*'s *AEP* management system and reviewed against a checklist [EA Application, Due Diligence Checklist and EA Loan project impacts template] which incorporates the key eligibility conditions.

7.3.2.2 Once recommended by an *AEP* Project Administrator and/or the Program Coordinator, the *application* is forwarded to the Director, Products and Services and the Chief Executive Officer for authorization.

#### 7.3.3 Funding Agreement

To complete the approval process, applicants must enter into a funding agreement (See Project Description, Payment Plan, Reporting Requirements and Due Dates, notice of *Funding* Adjustment and Promissory Note, and return all documents to *NACCA* signed/initialed.) Documents must be returned within 45 calendar days or the offer of financing is no longer valid.

### 7.4 Disbursement

#### 7.4.1 Submission of Required Reporting

*AFIs* are eligible for disbursement of approved projects by submitting, on a timely basis, the documentation required by Section 8 including quarterly exposure [EA Quarterly Exposure Report] and principal repayment reports [EA Quarterly Principal Repayment Report] for all outstanding EA loans. The disbursements include:

- A non-repayable *operating subsidy* to a maximum of 10% of the loan principal
- Payments of loan capital/principal against evidence that the *AFI* has disbursed the loan in question.

## **7.5 Principal Repayment**

As the loan is repaid to the *AFI*, the *AFI* will repay the principal to *NACCA* to permit the continuance of the EA fund. Interest on the client loan will accrue to the *AFI*.

## **7.6 Proof Not Serviced and Value of Loan on *NACCA*'s Balance Sheet**

- 7.6.1 Since it is important to ensure that the funds for this component be used in an area that is not served by an established *AFI* and that *NACCA* can demonstrate the value of the EA loan portfolio on its balance sheet, *NACCA* will require, from the *AFI*:
- 7.6.2 A printout from the loan management software verifying disbursement of the loan.
- 7.6.3 A list, including business addresses and phone numbers, of the loans by area territory not serviced, as long as these loans remain outstanding.

## **7.7 Reporting requirements**

*AFIs* will provide to *NACCA* no later than 45 days after payment of an EA loan to an *AFI*, a copy of the amortization schedule reflecting expected repayments. If a longer timeframe is required, the *AFI* may inform *NACCA* in writing. *NACCA* will use this information to monitor EA repayments. If an amendment is made to the amortization schedule at any time during repayment, an updated copy must be provided to *NACCA* immediately for its information and files.

*NACCA* will report quarterly to the *AEP* Committee on the funds disbursed for EA, the type of businesses, jobs created and the locations of the loans made in non-serviced territories.

*AFIs* with EA loan balances outstanding must provide a principal repayment and exposure report within 30 calendar days of each quarter end (June 30, September 30, December 31, and March 31). [See Quarterly Exposure Report and Quarterly Principal Repayment Report].

## **7.8 Default**

Default will arise when an *AFI* draws money from EA but does not use it to lend in an area not serviced, or when an *AFI* does not return repaid or unused principal to *NACCA*. In such a case the *AFI* will be required to repay such funds to *NACCA* with a penalty of 7% per annum. The *AFI* remains in default and is ineligible for any further funding under the Aboriginal Entrepreneurship Program until the default is rectified.

**7.9 Failure to Provide Financial, Non-Financial Reports and Payment Claims required by NACCA**

- 7.9.1 NACCA can withhold, request repayment, cancel or decommit any funds owed to a recipient when the report(s) and/or payment claims outlined in the principal funding agreement or in any of its annexes has or have not been submitted within 90-days of the end of the quarter (June 30, September 30, December 31, and March 31).
  
- 7.9.2 NACCA can withhold, request repayment, cancel or decommit any funds owed to a recipient when the year-end financial statements and/or schedules outlined in the funding agreement or in any of the its annexes are not submitted within 180-days of the fiscal year-end (March 31).

## 8 INTEREST RATE BUY-DOWN

### 8.1 Description

A subsidy provided to *AFIs* with low liquidity ratio to offset the interest costs for accessing capital for additional developmental lending.

### 8.2 Eligibility

#### 8.2.1 Maximum borrowing

The maximum applicable borrowing under this component will be subject to the lender's margining requirements.

#### 8.2.2 *IRB* Rate

The *IRB* is a subsidy to reduce interest costs, based on the amount of the line of credit drawn down from time to time, and is set at prime rate minus 2.5% to a maximum of 6% and a minimum of 4%. When the rate is less than 4%, the *eligible AFI* is reimbursed the actual costs incurred [IRB Examples of Calculations].

#### 8.2.3 *Eligible AFIs*

The *IRB* component will be available only to *AFIs* that meet the following conditions:

- 8.2.3.1 Demonstrated sound management and satisfactory internal loans administration systems based on quality assurance reviews;
- 8.2.3.2 In compliance with the terms of any current agreements with *NACCA*;
- 8.2.3.3 A liquidity ratio of 15% or less taking into account a three month projection of loan capital demand; in exceptional circumstances, it can be up to 20% (see Section 9.2.4.1 below);
- 8.2.3.4 Prepared to provide the security required by a source of capital; and,
- 8.2.3.5 Accept the required administrative controls and procedures.

#### 8.2.4 Liquidity ratio

The ratio of unencumbered Cash and Investments to the *Gross Loan Portfolio* on the balance sheet of an *AFI*. Where an *AFI* functions as both an *ACC* and a *CFDC* the Liquidity Ratio should be calculated on a combined basis i.e. ratio of Cash and Investments for both *ACC* and *CFDC* to *Gross Loan Portfolios* for the *ACC* and the *CFDC*.

##### 8.2.4.1 Exceptional Circumstances

Exceptional circumstances are those where an *AFI* has a liquidity ratio above 15% at the date of *application* or submission of a quarterly claim but can demonstrate, due to current environment, its lending rate is increasing and will utilize additional capital to reduce its liquidity ratio below 15% within three months following the *application* date or submission of a quarterly claim.

### 8.3 Project Application and Funding Agreement

#### 8.3.1 Application Timing

*Applications* can be submitted at any time but must be approved prior to any drawdown on the line of credit or loan.

#### 8.3.2 Application Process

To make an *application* to IRB, an AFI will:

8.3.2.1 First obtain from a source of capital an offer of a line of credit to be used to finance developmental lending to its clientele; and,

8.3.2.2 Provide NACCA with:

8.3.2.2.1 A completed IRB *application* form [IRB Application];

8.3.2.2.2 A letter of offer from its source of capital; and,

8.3.2.2.3 Its most recent audited financial statements and most recent quarterly in-house financial statements.

#### 8.3.3 Authorization and Funding Agreement

8.3.3.1 *Applications* are logged into NACCA's AEP management system and reviewed against a checklist within the *application* which incorporates the key eligibility conditions.

8.3.3.2 Once recommended by an AEP Products and Services Administrator and/or the Program Coordinator, the *application* is forwarded to the Director, Products and Services and Chief Executive Officer for authorization.

#### 8.3.4 Funding Agreement

To complete the approval process, applicants must sign the required funding agreement (Project Description, Payment Plan, Reporting Requirements and Due Dates and/or Notice of Funding Adjustment) and return all documents to NACCA signed and/or initialed. If not returned in 45 calendar days, the financing offer becomes null and void.

### 8.4 Claims

Throughout the period in which it draws on the IRB Fund, an AFI shall:

8.4.1 Submit annually a renewal document for its source of capital before any claims are processed for a subsequent *fiscal year* after approval of an *application*;

8.4.2 Submit reporting templates quarterly within 30 days of the quarter end; June 30, September 30, December 31 and March 31 [IRB Quarterly Liquidity Worksheet, IRB Quarterly Subsidy Claim Detail and IRB Loan Impact];

8.4.3 Submit to NACCA a copy of its monthly financial statements until the line of credit/loan is repaid and/or no longer eligible for the IRB;

8.4.4 Submit to NACCA monthly or quarterly statements from its source of capital indicating amounts drawn down on the line of credit the interest cost incurred in that period, and an aged summary of its loan portfolio; and,

8.4.5 Where the amount drawn down changes within the period covered by the statement, the *IRB* will be calculated on the daily balance outstanding for the number of applicable days [*IRB* Quarterly Subsidy Claim Detail].

8.4.6 Disbursements will be made as per the Annex 3: Payment Plan, Reporting Requirements and Due Dates template as amended from time to time.

### **8.5 Reporting requirements**

The Director, Products and Services will report quarterly to *AEP* Committee on the funds disbursed for *IRB*.

### **8.6 Default**

Default arises when an *AFI* draws down on the line of credit but does not apply the drawn down funds to developmental lending. When the *AFI*'s reports indicate that this is the situation, *NACCA* will seek an explanation from the *AFI*, with notice to the source of capital. If no satisfactory explanation is forthcoming, *NACCA* will cease payments of the *IRB*. The *AFI* remains in default and becomes ineligible for any further funding under the Aboriginal Entrepreneurship Program until the default is rectified.

### **8.7 Failure to Provide Financial, Non-Financial Reports and Payment Claims required by NACCA.**

8.7.1 *NACCA* can withhold, request repayment, cancel or decommit any funds owed to a recipient when the report(s) and/or payment claims outlined in the principal funding agreement or in any of its annexes has or have not been submitted within 90-days of the end of the quarter (June 30, September 30, December 31, and March 31).

8.7.2 *NACCA* can withhold, request repayment, cancel or decommit any funds owed to a recipient when the year-end financial statements and/or schedules outlined in the funding agreement or in any of the its annexes are not submitted within 180-days of the fiscal year-end (March 31).

## 9 ABORIGINAL DEVELOPMENTAL LENDING ASSISTANCE

### 9.1 Description

The purpose of *ADLA* is to enhance *AFI* financial sustainability with a performance-based approach that addresses the cost of lending incurred in the provision, management and repayment of qualified loans. It encourages full deployment of *AFI* loan capital and the use of risk measurement and management instruments.

### 9.2 Eligibility

#### 9.2.1 Eligible *AFIs*

Eligible applicants for *ADLA* shall be recognized Aboriginal Financial Institutions (*AFI*'s). *AFIs* interested in accessing this program should contact the NACCA Director, Products and Services. An *ADLA* budget calculation form would then be completed and authorized by the *AFI* manager.

#### 9.2.2 Eligible *AFI* Loans

Any business loan provided by an *AFI* to a business which is majority owned and controlled by an Aboriginal person(s) shall be eligible for *ADLA* assistance<sup>1</sup> unless it is ineligible for the reasons identified in Section 10.3.

#### 9.2.3 Calculating Eligible *ADLA*

- 9.2.3.1 *Eligible claims* shall be limited to 13% (except where other percentages are provided for specific circumstances within Section 10 of this manual) of new loan advances strictly tied to developmental loans considered “at risk” under the terms and conditions of the *AFI*'s normal and routine lending policies;
- 9.2.3.2 Eligible *ADLA* claims for *short term loans* (12 months or less) will be paid a pro-rated portion of the 13% based on the length of time each loan is outstanding: amount of loan multiplied by the *ADLA* rate multiplied by the term of the loan in months divided by the average *AFI* portfolio turnover of 42 months; example, \$50,000 x 13% x 6 month term / 42 month turnover = \$928.57;
- 9.2.3.3 *Eligible claims* for new letters of credit are paid at 5% when the bid has been accepted and a performance commitment made; and, the 8% is paid after a Letter of Credit is converted to a term loan.
- 9.2.3.4 *Eligible claims* for Lines of Credit are paid at the current *ADLA* rate, prorated for the length of time each line of credit is outstanding as compared to the average *AFI* portfolio turnover of 42 months where the dollar value of drawdowns eligible for *ADLA* is limited to the approved maximum dollar value of the Line of Credit.

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<sup>1</sup>In the case of syndicated loans involving one or more *AFI*'s, and where the syndicated loan is not ineligible for reasons noted above, then each individual *AFI*'s' participation in the syndication will be eligible for *ADLA*

- 9.2.3.5 *Eligible claims* for Agricultural loans advanced by designated *AFI*'s shall be limited to 18% *ADLA* in the first year declining by 1% per year to 13% in the sixth year of *ADLA* (F2015 18%, F2016 17%, F2017 16%, F2018 15%, F2019 14%, F2020 13%); and,
- 9.2.3.6 Any *operating subsidy*/funding received by an *AFI* for a specific developmental loan fund must be discounted by 20% and then the result divided by the *ADLA* % for the current *fiscal year* to determine the threshold/dollar value of new loan advances to be exceeded before any loan(s) become eligible for *ADLA* from that specific fund. Dual *AFI*s are eligible for *ADLA* on new loan advances from an *ACC* fund calculated according to the current *ADLA* policies.

### 9.3 Ineligible *AFI* Loans

Certain business loans shall be ineligible for *ADLA* support, including the following:

- Loans with a score of either VERY LOW or VERY HIGH as determined by the *NACCA* Risk Rating Guide [*ADLA* Loan Risk Measurement Tool];
- Bridge financing loans;
- Loans to financial lending institutions engaged in the provision of micro lending;
- Loans to investment corporations;
- Loans for the purpose of buying and selling real estate;
- Personal, consumer, or housing loans;
- Loans to any subsidiary corporation or loans to any non-arm's length borrower;
- The portion of a loan or loans made by a single *AFI* to a borrower, or borrowers considered *connected borrowings*, that exceeds the 5% maximum loan concentration defined as the greater of 5% of the respective *AFI*'s *GLP* or *capital base*, *capital base* is defined as *GLP* plus cash and short term investments available to lend;
- The 40% portion of First Citizen fund loans guaranteed by the First Citizen Fund program in British Columbia;
- Any portion of loans guaranteed by any other loan loss program;
- Loans outstanding prior to the commencement date of *ADLA* programming; and,
- The principal and accrued interest of any loan refinanced or restructured.

### 9.4 Project Application and Funding Agreements

#### 9.4.1 Applications

Any Aboriginal organization meeting the requirements of the Aboriginal Financial Institution *recognition policy* (see *AFI* definition page 2 and *NACCA* governance policy manual) may be considered at the beginning of each *fiscal year* for *ADLA*.



#### 9.4.2 Claims

To qualify for disbursement of *ADLA* assistance up to the approved allocation the *AFI* will be required to:

9.4.2.1 Submit the following documents quarterly within 30 calendar days of each quarter end (June 30, September 30, December 31 and March 31):

- A risk rating guide [ADLA Loan Risk Measurement Tool] delineating the risk taken on by the *AFI* for each loan;
- Proof of total loan disbursement(s) for each loan disbursed; loan history and/or loan disbursement report; and,
- Completed Quarterly Report on Loan(s) [ADLA Workbook] including all statistics related to each loan/*project*.

9.4.2.2 Be subject to audit and evaluation confirming risk assessment and loan qualification by *NACCA* or designate under the Quality Assurance Review process (See section 6).

#### 9.4.3 Funding Agreements

Funding agreements provide for *cash flow* projections, reporting requirements, access to records for Quality Assurance Review and parameters of management of reallocation of the *ADLA* budget based on actual value of *eligible claims* submitted [ADLA Workbook], and Project Description, Payment Plan, Reporting Requirements and Due Dates, and/or Notice of Funding Adjustment. All documents must be returned to *NACCA* signed/initialed within 45 calendar days or the financing offer becomes null and void.

### 9.5 Reporting

The Director, Products and Services will provide quarterly a written report to the *AEP Committee* on disbursements of *ADLA* and the statistical data collected on loans disbursed.

### 9.6 Defaults

Default arises if the recipient *AFI*:

- Claims for an *ADLA* payment for an ineligible loan(s);
- Does not provide quarterly and/or annual reports as required; and
- Does not participate in a quality assurance review, when requested by *NACCA*.

The *AFI* remains in default and is ineligible for any further funding under the Aboriginal Entrepreneurship Program until the default is rectified.

### 9.7 Failure to Provide Financial, Non-Financial Reports and Payment Claims required by *NACCA*

9.7.1 *NACCA* can withhold, request repayment, cancel or decommit any funds owed to a recipient when the report(s) and/or payment claims outlined in the principal funding agreement or in any of its annexes has or have not been submitted within 90-days of the end of the quarter (June 30, September 30, December 31, and March 31).

- 9.7.2 NACCA can withhold, request repayment, cancel or decommit any funds owed to a recipient when the year-end financial statements and/or schedules outlined in the funding agreement or in any of the its annexes are not submitted within 180-days of the fiscal year-end (March 31).

## 10 ABORIGINAL BUSINESS FINANCING PROGRAM

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### 10.1 Purpose

*ABFP* allows *AFIs* to assist business clients on the basis of proven need by providing equity, quasi-equity and business support services which will enable those clients to develop their businesses and secure additional third party debt financing as required.

### 10.2 *AFI Eligibility – Regional Lead*

Each region has undergone independent discussions to appoint an *AFI Regional Lead* for delivery of the *ABFP* under a *funding-agreement* with *NACCA*. Each region's delivery model is unique and described by a separate Memorandum of Understanding; administration of the regional delivery model and regional relationships are not the responsibility of *NACCA*.

### 10.3 Eligibility

All project *contributions*, payable and/or non-repayable, must comply with the guidelines provided by *INAC* as described in these policies.

#### 10.3.1 Aboriginal Eligibility

10.3.1.1 Aboriginal Individuals – *please contact Aboriginal Business Financing Directorate at Indigenous and Northern Affairs Canada for further information.*

#### 10.3.1.2 Aboriginal-owned Entities

An association, partnership, co-operative, for-profit or non-profit body corporate, and legal trustee or other legal entity that is a majority-owned and controlled by Aboriginal people. Charitable and religious organizations are ineligible.

#### 10.3.1.3 Aboriginal Non-Aboriginal Business Partners

The *ABFP* prorates support based on the level of Aboriginal ownership and control. Non-Aboriginal partners must also bring equity and debt financing to the arrangement, in proportion to their level of ownership and control.

#### 10.3.1.4 Partner with a non-Aboriginal Spouse

An Aboriginal applicant with a non-Aboriginal spouse business partner is eligible for support under *ABFP* when he/she, the Aboriginal applicant, has relevant experience and will play a management or otherwise substantive role in the business.

#### 10.3.1.5 Equity Requirements and Assistance

For general business applicants, the minimum requirement for applicant equity is 10 percent; however, the *ABFP* encourages a higher level of participation.

The combined client and Aboriginal Business Financing Program equity cannot exceed 50 percent of eligible project costs except in the case of Aboriginal youth; see next paragraph.

Aboriginal youth entrepreneurs are individuals between the ages of 18 and 35 (inclusive). For youth, *ABFP* may offer up to 60 percent of eligible project costs based on demonstrated need.

*Contributions* to Aboriginal entrepreneurs cannot exceed \$99,999 and *contributions* to Aboriginal communities cannot exceed \$250,000. Any equity *contribution* must be based on demonstrated client need.

#### 10.3.1.6 Client Need Assessment Criteria

In considering client need, the *PSF* should address the ability of the client to implement the project on their own.

#### 10.3.1.7 Calculating Client Net-Worth

An applicant's net worth is the value of all assets, minus the total value of all liabilities. It is what is owned minus what is owed. Refer to detailed guide for more information.

### 10.3.2 Eligible Activities

#### 10.3.2.1 Substantive involvement

To be eligible for support, the applicant must be involved full time with the proposed business in a management capacity; the work to be performed by the applicant in relation to the business activity must be substantive and essential to the success of the business. Work that a substitute could easily perform without significantly affecting the operation of the business would not be considered essential.

An applicant that already owns one or more businesses must demonstrate his/her ability and intention to be fully involved in a management role with both the existing and the new business ventures.

An applicant must be willing to resign from his/her existing full-time employment to be eligible for *ABFP* assistance. Exceptions may be made based on the seasonality of a business (for example, a client may have a full time job during the off-season of a seasonal tourist destination).

#### 10.3.2.2 Special Considerations/Exceptions

***Acquisitions*** – Business acquisitions are normally arm's-length transactions and must demonstrate fair market value. In line with the guideline, exceptions for non-arm's-length transactions may be made for clients in remote communities at the discretion of the *AFI Regional Lead*. Applicants must provide three years of financial statements.

### 10.3.3 Ineligible Business Activities

*AFI Regional Leads* must take into account the local, regional and/or national economic and market conditions that have significant impact on the potential success and viability of any business. In particular, the *AFI Regional Leads* must assess the probable impact of any proposed project on other commercial operations.

Specific in-eligible activities include:

1. Direct alcohol production, marketing, distribution or sales;
2. Tobacco production, marketing, distribution or sales;
3. Games of chance operations, casinos, bingo halls, small scale gaming operations;
4. Sexually exploitive materials, entertainment, services, products, marketing, distribution and sales, including any web-based activities;
5. Pawn shops, cheque cashers, finance companies, and others making small, short-term, high interest rate loans that go by a variety of names: payday loans, cash advance loans, cheque advance loans, post-dated cheque loans or deferred deposit cheque loans; and,
6. Passive investments (real estate) or any other activity where the applicant is not fully involved.

#### 10.3.3.1 Special Considerations/Exceptions

**ISO (International Organization for Standardization)** is ineligible for support except for a sector of the economy where widespread adoption of international standards has been accepted and ISO certification provides the client with the means to compete in many more markets across the country and the globe. Specifically, Aboriginal communities and community economic development corporations are ineligible. For clarity, a community or economic development corporation *application* for ISO certification for an owned-business that would benefit as described above would be eligible.

**Food, Hospitality and Retail establishments** – an *ABFP contribution* may be considered on a pro-rated basis if alcohol and/or tobacco sales are only a portion of total sales (for example, if 40% of sales are derived from tobacco, then *ABFP contribution* would only consider 60% of the eligible project costs; if 40% sales derived from tobacco and 20% from sale of alcohol then *ABFP* would only consider 40% of the eligible project costs). Normally, an establishment that receives more than 51% of its sales from tobacco and/or alcohol sales is ineligible for *ABFP contributions*.

**Alcohol production type activities** – Assistance may be provided on an exceptional basis for production type activities (e.g. breweries, wineries) where there is substantive economic benefit to the Aboriginal community (jobs, revenues).

**Substantive Involvement** – Exceptions may be made when an applicant can demonstrate that substantial indirect or secondary benefits to Aboriginal people would result from the project. For example, where the Aboriginal applicant would use his/her ownership person to secure commitment to one of the following from the management of the proposed business:

- A significant number of Aboriginal people employed in the proposed business and, as necessary, receive training;
- Significant purchases of goods or services offered by other Aboriginal-controlled businesses thereby enhancing profitability and growth of these businesses; or,

- Enabling existing Aboriginal businesses to access goods and services on better terms than might otherwise be possible (perhaps lower prices or more reliable delivery) again enhancing the profitability of these businesses.

### 10.3.4 Eligible Costs

Eligible costs include capital costs, costs of related infrastructure development, costs of shares and assets, operating costs, marketing costs, costs associated with business innovation/growth, costs of engaging consultants and other qualified professionals, costs associated with providing financial and business services, and costs associated with obtaining appropriate training and/or mentoring.

#### 10.3.4.1 Special Considerations/Exceptions

**Acquisition** - When the business is acquired after the control period ends, for the previously supported operation or project, and the support was in the form of a non-repayable *contribution*, *ABFP* deducts the amount of support from the total appraised value of the business. This condition is generally waived after a reasonable time following the control period, normally five years.

As a pre-disbursement condition in the Letter of Offer, legal title of the business to be acquired must be transferred at the time of purchase, and the applicant must provide *ABFP* with an acceptable legal purchase agreement. This agreement must include information about prior liabilities, obligations and anti-competition clauses. The table below describes the type of business valuation required depending on the size and type of transaction.

* At the discretion of the <i>AFI Regional Lead</i> the purchase price may be increased depending on the risk of the project and the reviewing officer's experience. ** At the discretion of the <i>AFI Regional Lead</i> a qualified professional (CA, CMA,CGA) may be used instead of a Certified Business Valuator (CVA) when it is determined that a CBV is not available or necessary for a specific project						
Transaction	Size of Total Purchase Price	Type of Evaluation Required*				
		Desk Valuation by <i>AFI Regional Lead</i>	Calculation of Value CBV**	Estimate of Value CBV**	Opinion of Value by CBV**	Appraisal of Assets by an appraiser (CA, CMA, CGA or CBV)
Purchase "Going Concern"	Less than \$75 000	XX				
	\$75 001– \$250 000		XX			
	\$250,001-\$500,000			XX		
	More than \$500 001				XX	
	Non-arm's-length transactions				XX	
Purchase of Assets	Less than \$75 000	XX				
	More than \$75 000					XX
	Non-arm's-length transactions					XX

**Fishing Vessels** – Business proposals involving the acquisition of fishing licenses and fishing vessels are eligible for consideration of support when they meet the following conditions.

- The applicant must demonstrate a professional level of knowledge of navigation, vessel maintenance and financial management. Alternatively, the applicant must agree to acquire this specialized training within a certain period of time.
- Applicants should normally have a minimum of two years' demonstrated fishing experience as an operator or crew member of a fishing vessel.
- All fishing vessels must meet standards of safety and efficiency, or include the cost of upgrading the vessel as part of the business proposal.
- Commercial fishing vessels must be appraised by a professional marine surveyor in a manner acceptable to the appropriate federal and provincial/territorial bodies, and must successfully pass a fish hold inspection by the Department of Fisheries and Oceans.
- A signed sales agreement in place conditional on approval of financing.
- Fishing licenses and quotas must be obtained from the appropriate federal and provincial/territorial licensing bodies. Band allocations are only acceptable with proof the federal and provincial/territorial licensing bodies have granted licence(s) to the First Nation and the First Nation has transferred sufficient quota to the applicant to establish a viable business.

Eligible costs include the following:

- A vessel and/or vessel modernization, and related equipment;
- A marine survey; and,
- A license and/or quota.

Proposals to modernize Aboriginal-owned fishing vessels are eligible when the upgrading would significantly improve the long-term viability of the fishing business; however, replacement of equipment is normally a cost of doing business and is not eligible for support.

**Home-based Business** – Eligible costs should be deemed to be only those costs for furnishings, equipment, upgrades that *ABFP* can reasonably agree are specific to and necessary for the business being established or expanded. For example, purchase of land and/or buildings, construction of buildings which include residential use, repairs to a residence (roof, windows, siding, and other upgrades), improvements to land and property (paving of driveways, landscaping) unless specific to and necessary for establishment of the business (creating parking lot for customer use, paved pathway for disabled access. Bed & Breakfasts must be the owner's principal residence at all times and be registered with local tourism association and municipalities.

Due to the difficulty of ensuring that the costs continue to be used for business activity and not general home improvements a longer control period should be considered.

Generally, the following are considered eligible:

- Expenditures necessary to comply with regulatory requirements;
- Costs necessary to augment normal residential infrastructure to supply customers;
- Technology for advertising, bookings, sales and inventory management; and,
- Operating costs that are exclusively required for the operation of the business; costs that can be used for both personal and business use should not be considered (for example, food and cleaning supplies).

**Inventory and Operating (Working Capital)** – Where it is essential to the success of the project, inventories, and operating (working capital) costs are an eligible capital cost.

#### 10.3.5 In-Eligible Costs

*ABFP* may not make a *contribution* in respect of costs for which an eligible recipient has entered into a legal commitment prior to the receipt of an *application*. “Legal Commitment” does not include an option to purchase or to hire, or an option for a capital lease.

*ABFP* may not make a *contribution* toward the costs of any consultant or other qualified professional that is not at arm’s length from the applicant.

Transactions where vendor financing is provided for the acquisition of a business or any other assets are typically not eligible for support under *ABFP*.

The *ABFP* does not support the costs associated with creating or improving telecommunication infrastructure of a region

##### 10.3.5.1 Special Considerations/Exceptions

**Acquisitions** – The appraised value of any personal living space associated with an acquisition is subtracted from the overall value and is not eligible for funding.

When a previously supported operation or project related to a business being acquired is within the control period, the seller must complete an Assignment and Assumption Agreement to transfer the Letter of Offer to the purchaser. The *ABFP* will not provide additional support to the purchaser since the original *contribution* agreement remains in force. However, additional support for new endeavours, such as business support, and trade and market expansion may be considered.

**Innovation** – The Aboriginal Business Financing Program does not support the simple replacement of assets or the costs associated with creating or improving the telecommunications infrastructure of a region.

An Innovation Project must meet the following criteria:

1. The proposed innovation must be a material change in business methods or processes, usually involving technology.



2. The proposed innovation must result in an appropriate incremental improvement or net economic benefit to the business; profitability, sales or jobs.
3. The proposed innovation must be new to the firm and, ideally, move the business towards or beyond the industry standard.

**Vendor Financing** – An exception can be made in remote areas when commercial financing forms a part of the overall financing package.

#### **10.4 Business Proposal and Screening**

Templates are available for the *application* and screening process.

An *AFI Regional Lead* may choose to use another format; however, at a minimum, the information requested and considered in each of the documents listed above must be included.

#### **10.5 Project Assessment and Authorization**

*AFI Regional Leads* are expected to assess projects in a prudent manner with a level of detail expected from any financial institution operating successfully in the developmental lending sector.

A guide to project assessment and related templates is available. *AFI Regional Leads* can use these documents or another format as long as all of the items described in the general guide are included in it.

#### **10.6 Reporting, Claims and Disbursements**

##### 10.6.1 Expectations of *AFI Regional Lead*

***Templates have been developed for the use of AFI Regional Leads (see Performance Measures and Contributions Report). The AFI Regional Lead may choose to use another format; however, at a minimum, the format must include the information contained in the templates provided.***

10.6.1.1 *AFI Regional Leads* are expected to undertake the same level of prudence and accountability in authorizing and issuing disbursements for authorized projects as contained in the federal regulations in the *Financial Administration Act*.

10.6.1.2 No disbursement shall be made for any expenditure that is not identified as an eligible costs according to the contents of this policy and included as eligible in a duly authorized and legally binding project agreement.

10.6.1.3 *AFI Regional Leads* shall ensure that appropriate documentation is on file to support all expenditures reimbursed; at a minimum this would include invoices and the client's proof of payment. In exceptional circumstances, where a large project has a significant number of disbursements, the *AFI Regional Lead* may choose to select an appropriate number of transactions for a client to provide copies of proof of payment and invoices. The *AFI Regional Lead* shall ensure the

client is aware the project could be selected for audit, evaluation or Quality Assurance Review (QAR) and in that case the individual conducting the QAR would require access to all documentation supporting the claim.

10.6.2 Reporting by and Payments to *AFI Regional Leads*

10.6.2.1 The following definitions are to be used by *NACCA* and *AFI Regional Leads* for payment decisions and any required reporting.

10.6.2.1.1 *Eligible Application* - An application deemed eligible through individual *AFI* processes including verification of adequate credit score and any required screening for viability.

10.6.2.1.2 *Committed Project* – A *committed project* is a viable project for which a funding agreement, signed by the *AFI Regional Lead's* representative, is offered to the client and accepted by the client by virtue of his/her signature on the same funding agreement.

10.6.2.1.3 *Project Disbursement* - A payment made to a client for a *committed project* based on an *eligible claim* including required documentation of cost(s) and proof of payment of the same cost(s).

10.6.2.1.4 *Project Term* – The period during which a *committed project* is eligible to submit claims for expenditures as allowed for in the funding agreement between the client and the *AFI Regional Lead*.

10.6.2.2 In order for regular payments to be made, a Performance Measures, Contributions Report and ABFP Schedule must be submitted as outlined in Annex 3 Payment Plan, Reporting and Due Dates.

- (i) Activities undertaken by the *AFI Regional Lead* to create greater cooperation and collaboration, including opportunities for cost savings, in the region and or province; and,
- (ii) Challenges, successes and/or best practices experienced in administration of the *ABFP*.

10.6.2.3 Upon signing and/or initialling of a funding agreement (See Principal Funding Agreement, Annex 2.1, Project Description, Annex 3: Payment Plan, Reporting Requirements and Due Dates. *AFI Regional Leads* will receive a 50 % advance of administrative dollars and 50 % advance of *contribution* funding based on approved budget allocations.

10.6.2.4 A Second and subsequent payments can be issued such that the total dollar value paid for operations, including the payment being recommended, does not exceed 25% of the annual approved budget and the total dollar value paid for operations..

10.6.2.5 Subsequent payments can be issued such that the total dollar value paid for *contributions*, including the payment being recommended, does not exceed 25%

of the annual budget and where the total disbursed to date for the *fiscal year* is not more than 100% of the approved budget.

- 10.6.3 Reallocation of regional budget allocations (to be read in conjunction with section 11.6.2)
- 10.6.3.1 *Committed projects* not fully disbursed may be deferred for disbursement by the *Regional Lead* to a subsequent *fiscal year* and reported in Annex 4.1 ABFP Schedule.
- 10.6.3.1.1 *Committed projects* deferred to a subsequent *fiscal year* for payment must be established as a separate, distinct deferred revenue to liability within the audited financial statements of the *AFI Regional Lead*.
- 10.6.3.1.4 *AFI Regional Leads* are responsible to ensure the client funding agreements used to commit *projects* include a *project* term and any other terms and conditions to meet requirements of its *sub-agreement* with NACCA and the *AEP Policy Manual*.
- 10.6.3.1.6 Any undisbursed funds, resulting from either decommitment of the *project* or actual *project* costs being less than estimated, , can be redirected into other business projects or contributed to a national pool for reallocation to regions based on need.
- 10.6.3.1.7 To facilitate any reallocation, the *AFI Regional Lead* immediately upon receipt of a written request from NACCA will arrange repayment to NACCA of any amount advanced and not disbursed.
- 10.6.3.1.8 *AFI Regional Leads* must provide a *contributions* report for the quarters ending September 30 and December 31 no later than 30 days after of each quarter end. NACCA is responsible to dialogue with the *AFI Regional Leads* after receipt of these reports to determine if reallocations of budgets between regions is required based on *AFI* actual *project* commitments to the fiscal year-end and then communicate any reallocation decisions to the affected *AFIs* at the earliest opportunity.
- 10.6.3.1.9 The targets NACCA will use as a guide for *AFI Regional Leads* at December 31 of each *fiscal year*:
- (i) 70% of approved budgets in *committed projects*; and,
  - (ii) 75% of the dollar value of *committed projects* disbursed for *eligible claims*.
- 10.6.3.2 Should NACCA see a need to reallocate budgets sooner, it will dialogue with the *AFI Regional Leads* prior to making a decision to reallocate.

10.6.3.3 In the event an *AFI Regional Lead* has an year-end surplus of 2.5% or greater, *NACCA* will have discussions with the *AFI* to determine cause and decide if an adjustment to funding amounts is required in future fiscal years.

10.6.3.4 *NACCA* has the sole authority for the decision of reallocation of budgets as per the *contribution* agreement (also referred to as the Contribution Funding Agreement) with *DIAND* and reflected in the *principal funding agreements*.

## **10.7 Defaults**

Default arises if the recipient *AFI*:

- Receives an *ABFP* payment for an ineligible *project(s)*;
- Does not provide quarterly and/or annual reports as required;
- Does not participate in *ABFP* reallocation process; and,
- Does not participate in a quality assurance review, when requested by *NACCA*.

The *AFI* remains in default and is ineligible for any further funding under the Aboriginal Entrepreneurship Program until the default is rectified.

## **10.8 Failure to Provide Financial, Non-Financial Reports and Payment Claims required by NACCA**

10.8.1 *NACCA* can withhold, request repayment, cancel or decommit any funds owed to a recipient when the report(s) and/or payment claims outlined in the principal funding agreement or in any of its annexes has or have not been submitted within 90-days of the end of the quarter (June 30, September 30, December 31, and March 31).

10.8.2 *NACCA* can withhold, request repayment, cancel or decommit any funds owed to a recipient when the year-end financial statements and/or schedules outlined in the funding agreement or in any of the its annexes are not submitted within 180-days of the fiscal year-end (March 31).