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Investment Strategies for Northern Cash Windfalls: Learning from the Alaskan Experience

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ABSTRACT. The Alaska Native Claims Settlement Act (1971) and the creation of the Alaska Permanent Fund (1976) provided Native and non-Native Alaskans with two means of trust capital investment. To date Native Alaskans have largely chosen a strategy of investment in local established and/or new businesses, while the Permanent Fund has pursued a portfolio management strategy. Both investment means were examined against their stated ends (for the former: profit, social responsibility and cultural preservation; for the latter: savings, profit, and dividend distribution). It is concluded that business risk investment in an isolated and remote northern state characterized by economic reliance on externally controlled business cycles is inherently risky and that a strategy of international portfolio management has paid far superior dividends.

Given that the current situation in the Canadian North (two Northern Accord agreements-in-principle and the Dene/Metis and Yukon Comprehensive Land Claim agreements-in-principle achieved in 1988) parallels the situation in Alaska in the 1970s, the authors propose a strategy for the creation of a model developmental natural resource trust fund based on the best features of the Alaskan models. This model fund combines a portfolio management trust philosophy with the goal of sustainable economic development in the quest for northern fiscal autonomy.

Key words: Alaska Native Claims Settlement Act, Alaska Permanent Fund, resource management, Native people, economic development, sustainable development, trust funds, investment, Native land claims

RÉSUMÉ. La loi *Alaska Native Claims Settlement Act* de 1971 et la création du *Alaska Permanent Fund* en 1976, ont apporté aux Alaskiens autochtones et non-autochtones deux méthodes de fonds de placement de capitaux. À ce jour, les Alaskiens autochtones ont opté en grande partie pour une stratégie d'investissement dans des affaires locales déjà établies ou nouvelles, tandis que le *Permanent Fund* a poursuivi une stratégie de gestion de portefeuille. On a examiné les deux méthodes de placement au regard de leurs objectifs (pour la première: la rentabilité, la responsabilité et la préservation de la culture; pour la deuxième: l'épargne, la rentabilité et la répartition de dividendes). On conclut que l'investissement productif spéculatif dans un État isolé et lointain du Grand Nord, qui se caractérise par la dépendance économique de cycles d'affaires contrôlés de l'extérieur, comporte des risques inhérents, et qu'une stratégie de gestion de portefeuille international a rapporté des dividendes nettement supérieurs.

Étant donné que la situation actuelle dans le Nord canadien (deux Ententes de principes dans le Nord et les Ententes de principe sur les revendications territoriales globales des Dénés et des Métis et du Yukon, signées en 1988), est une réplique de la situation en Alaska dans les années 1970, les auteurs proposent une stratégie pour créer un fonds fiduciaire modèle pour l'exploitation des ressources naturelles, qui s'appuierait sur les meilleures caractéristiques des modèles alaskiens. Ce fonds modèle allie une philosophie de placement fondée sur la gestion de portefeuille avec les objectifs de développement économique durable dans la quête de l'autonomie financière du Grand Nord.

Mots clés: *Alaska Native Claims Settlement Act, Alaska Permanent Fund,* gestion de ressources, autochtones, développement économique développement durable, fonds de placement, investissement, revendications territoriales des autochtones

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INTRODUCTION

This paper outlines two applied northern strategies for the investment of large pools of trust capital and concludes by proposing a model natural resource trust fund for northern Canada. The first strategy described, local business investment, has been utilized by the Native beneficiaries and regional corporations created pursuant to the 1971 Alaska Native Claims Settlement Act (ANCSA) (U.S. Statutes, 1971); the second, portfolio management, characterizes the approach of the board of trustees of the Alaska Permanent Fund Corporation.

In 1971 the Native people of Alaska found themselves in an unprecedented situation upon the settlement of their land claims: they became the owners and managers of 13 regional corporations under an extremely complex piece of legislation passed by the United States Congress. This legislation created the regional corporations to administer a settlement of 44 million acres of land and a once-only cash award of $962.5 million. The corporations were set up to serve the needs of the Native beneficiaries, and they were to operate on a profit basis. At the same time they were to steward the land base — qualified by village corporation control of most surface rights — which since time immemorial had been the basis of the bush economy of village Alaska. This inherent potential conflict between operation of businesses for profit and the stewardship of the land and thus the culture tempered early enthusiasm for the settlement. As we shall see, it also greatly affected the investment strategies chosen by the regional corporations.

Much of the problem facing the regional corporations stems from unprofitable business investments. The majority of these investments were made in Alaska, a state with an historic prospensity for economic booms and busts. The initial investment period unfortunately coincided with local and international business cycle downturns, and consequently Native Alaskans entered the world of high finance on very unfavourable terms. With few indigenous Native entrepreneurs in the state economy, the regional corporations turned to outside advisors, lawyers and consultants and paid

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a high price for advice that sometimes was culturally and economically biased. Indeed, a persistent Alaskan joke labels ANCSA as the "Alaska Lawyers and Consultants Settlement Act."

As the Native people of Alaska coped with their mammoth new financial responsibilities, the state also found itself the beneficiary of a huge sum of money. The 1970s were a period of economic boom in Alaska, with the completion of the Alyeska pipeline and high world oil prices. In 1970 alone the state received $900 million from the sale of oil and gas leases on the North Slope, and bowing to local political pressures it spent the windfall on expanded government services and capital construction projects. Realizing the merit of stewarding the new resource revenues, the state introduced a referendum in 1976 that resulted in the creation of a constitutionally protected and entrenched trust fund.

The Native regional for-profit corporations and the Alaska Permanent Fund (APF) board of trustees began massive investment programs in the 1970s and early 1980s. The regional corporations largely focussed on Alaskan business investments; the fund trustees chose a portfolio management strategy. This paper summarizes the results of these two investment strategies and applies this collective investment experience to a model for potential adoption by both Native land claims beneficiaries and proto-provincial northern legislatures in Canada. We will look only at the financial impact and concomitant socio-cultural effects. Much more work needs to be done in order to determine the social and cultural impact of development policies.

Although the APF and ANCSA corporations were established under different conditions and for different purposes, a comparison is still relevant insofar as the APF and ANCSA corporations exemplify two different investment strategies, one or both of which may be appropriate to Canadian circumstances. Alaska provides a useful comparison for the Canadian North, as it is situated at the same latitude and faces similar problems of isolation, high construction and transportation costs, small population and dependence on non-renewable resources. There is also a large Native population, which provides a further basis of comparison with northern Canada. These geographic, environmental, demographic and cultural similarities between Alaska and northern Canada suggest that development strategies employed in Alaska may have relevance to the Canadian North. While the Alaskan and northern Canadian situations are by no means identical — e.g., with significant differences in political system, population size and settlement patterns — Alaska perhaps provides the closest approximation of the Canadian North.

It is hoped that this model will offer northern Canadians a means of retaining and sustaining major new flows of capital from land claims settlements and the northern energy accords with the federal government. It is further hoped that the benefits of this investment strategy will be new sustainable small businesses in the tradition advocated by the World Commission on Environment and Development (1987) and first described by Schumacher (1974), the Dag Hammarskjold Foundation (1975), Higgins and Higgins (1979), Hawken (1983, 1987), Ross and Usher (1986), the Royal Commission on Employment and Unemployment (1986) and others. Such small businesses will build on local strengths, largely eschew the non-renewable resource sector, and focus on opportunities in the information and service sector.

THE NATIVE REGIONAL CORPORATIONS' INVESTMENT STRATEGIES AND THEIR CONSEQUENCES

The Alaska Native Claims Settlement Act (ANCSA) became law on 18 December 1971. It extinguished all outstanding Alaskan Native claims of aboriginal title to the land, hunting and fishing rights and compensation arising from claims based on statutes or treaties. Compensation for the extinguishment of the claims amounted to a total non-taxable grant of $962.5 million to Alaskan Natives. In addition, unrestricted title to 44 million acres, including surface and subsurface rights, was granted. The legislation required that these funds be distributed to eligible Natives by twelve state-chartered regional corporations. A thirteenth regional corporation was formed for non-resident Natives who participated in the financial settlement but received no title to land. Village corporations were also established to mediate between regional and local interests, and they controlled most surface rights to land. The regional corporations' geographic boundaries within the state of Alaska are set out in Figure 1, and a summary profile of descriptive characteristics for the regional corporations in 1984 is presented in Table 1.

Much controversy has arisen over several aspects of the ANCSA settlement. Part of this controversy revolves around the conflict between trade-offs that must be made by management to meet the profit and non-profit expectations held for regional corporations by both the U.S. Congress and Alaskan Natives. On one hand, Congress expected the corporations to provide the means of improving the "health, education, social and economic welfare" (U.S. Statutes, 1971) of Native shareholders. In addition, they expect that shareholders who wish to enter the mainstream economy will be provided with employment or business opportunities through the corporations. Finally, many shareholders expect that their Native heritage, consisting of both the land and cash assets, will be preserved for future generations. Many of these broad expectations fall outside the usual profit-motivated objectives pursued by typical corporations. Some of the expectations held for regional corporations go to the very issue of cultural survival of Alaskan Natives. Generally, conventional corporations are unconcerned about issues such as the social welfare of their shareholders, since maximizing financial profit is the underlying motive for most corporate decisions (Wuttunee, 1988). These conflicts may, however, be mitigated through investment planning that emphasizes sustainable small ventures and diversification of risk.

In order to interpret the financial performance of the ANCSA regional corporations, it is important to understand some of the operating constraints they must function under as a result of the ANCSA legislation. Regional corporations were legislated into existence and are required to operate as for-profit organizations under ANCSA legislation. Conventional corporations are usually formed in situations where someone has identified a product or service and decides to formalize the business legally by incorporating. In contrast, the regional corporations in Alaska were created by legislation. In addition, they are located in areas with few low-risk investment opportunities, little socio-economic infrastructure, and small, isolated markets.

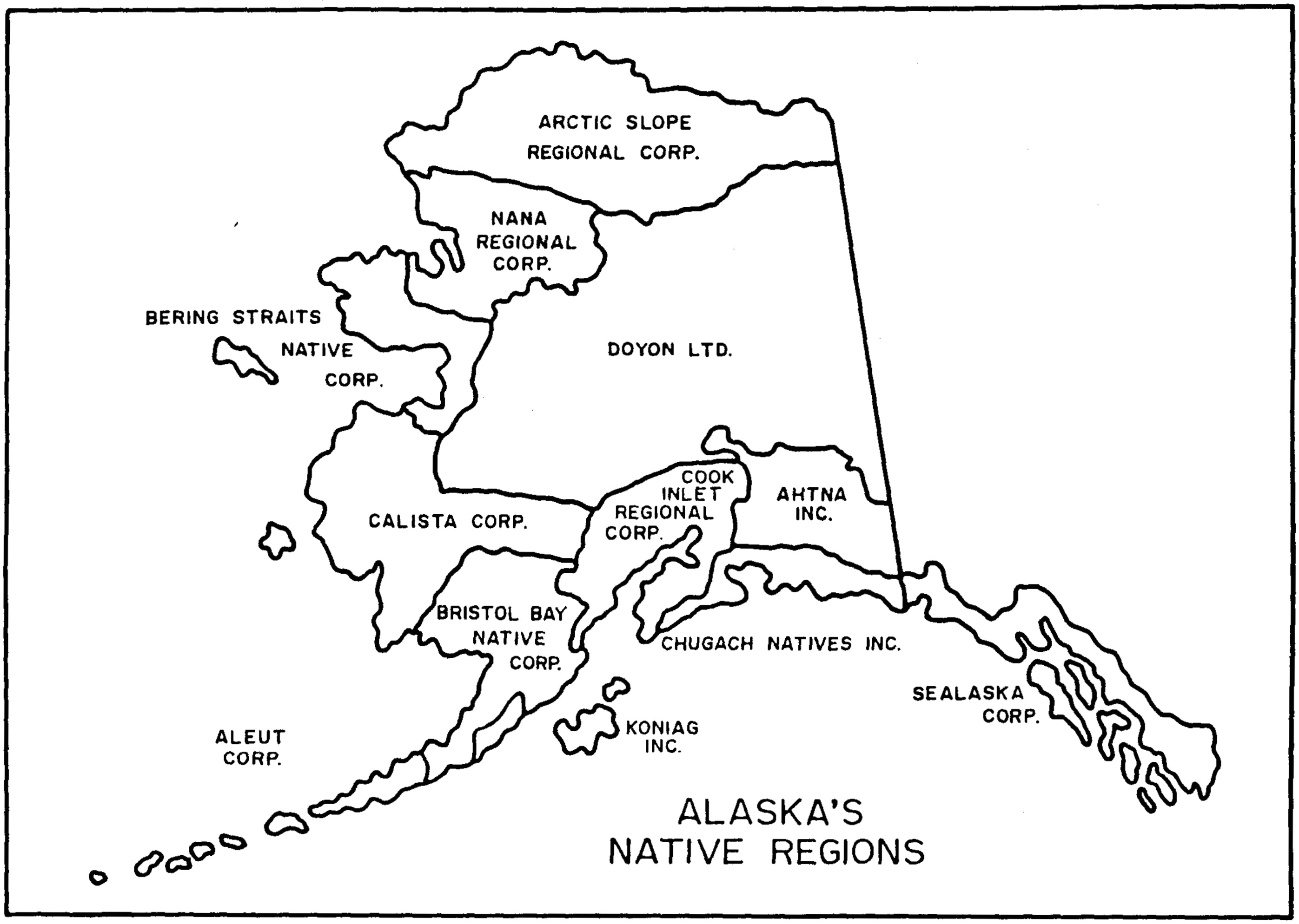

FIG. 1. Alaska's Native regions.

Under section 7(f) of ANCSA, only a shareholder in the land claim settlement may qualify for election to a corporate board. This left the regional corporations at start-up in the position of drawing on a very small pool of Native people with any business expertise. As a consequence, many non-Native business managers were hired in the early years of ANCSA implementation. These managers were often in key positions to influence policy and development strategy for the corporations, and arguably their advice did not always place Native interests first. Some problems with outside consultants included incompetence in the field for which they were supposedly trained, lack of accountability, gross overcharging of fees and poor skills for communicating with community people. Further problems were created by sections 6(c), 7(i) and 7(j) in the ANCSA legislation, which address distribution of corporate revenues. These sections require regional corporations to share 70% of revenues and earned from timber and subsurface resources with the other regional corporations. No corresponding provision exists to spread potential losses from resource development among the corporations. In this way Congress apparently made an attempt to balance resource disparities among regional corporations, but it did so only with an eye to distribution of profits. Once again ANCSA statutory requirements differentiate Native regional corporations from other corporations in a manner that restricts traditional business practice.

It is estimated that the ANCSA revenue-sharing provision alone has resulted in litigation costing an estimated $35 million between 1971 and 1984 (Berger, 1985). Other costly legal disputes regarding the interpretation of complicated ANCSA provisions have included disputes between regional corporations, between regional and village corporations and between shareholders and their regional corporations. These disputes have tied up corporate funds and scarce human resources for long periods of time. As a result, management energies were diverted from the financial bottom line to litigation issues when a sharp focus on financial success was vital. In light of the foregoing analysis, it is notable that the regional corporations have survived in the face of statutory restrictions, lack of local investment opportunities and management failures.

Alaska in the 1970s was characterized by vigorous activity in the oil industry, and the regional corporations began operations in this buoyant economy. In 1973-74 there was an inflationary surge stimulated by the activities of the Organization of Petroleum Exporting Countries (OPEC) and a subsequent economic slowdown. There was a depression in most of the member countries of the Organization for Economic Cooperation and Development (OECD) from 1979

TABLE 1. Profile of the Alaskan Regional Corporations (1984)

Regional corporations	Shareholder enrollment	ANCSA land entitlement[1] (acres)	ANCSA cash entitlement[1] (millions)	Retained by regional corporation (millions)	Current assets[2] (thousands)	Total assets[2] (thousands)	Current liabilities[2] (thousands)	Total liabilities[2] (thousands)	Stockholders' equity[2] (thousands)	Total sales and other revenue[2] (thousands)	Sec 7(i) income received (thousands)	Net income[2] (loss) (thousands)	Earnings per share[2] (loss) $
Ahtna, Inc.	1,074	2.4 mil	13.0	6.4	12,291	16,481	912	2,686	13,795	3,049	N/A	598	(6.28)
The Aleut Corp.	3,249	2.8 mil	40.5	19.6	3,439	30,222	1,409	12,947	17,275	2,934	N/A	1,021	2.73
Arctic Slope Reg. Corp.	3,738	5.2 mil	46.0	22.6	22,942	47,029	9,600	21,719	25,310	53,407	186	4,308	7.60
Bristol Bay Native Corp.	5,400	3.0 mil	67.4	32.6	6,058	56,201	3,444	17,684	38,517	28,959	N/A	1,987	3.67
Calista Corp.	13,308	5.9 mil	166.1	80.3	14,344	85,021	6,604	32,717	52,304	47,226	678	(4,281)	(3.22)
Chugach Natives Inc.	1,912	880 thou	24.1	11.7	15,536	25,128	6,417	8,578	16,550	14,127	69	(697)	(3.65)
Cook Inlet Reg., Inc.	6,264	2.7 mil	77.8	37.6	63,041	126,022	10,009	30,115	95,907	33,086	83	18,610	28.74
Doyon Corp.	9,061	12.0 mil	113.1	54.6	20,448	54,532	9,209	25,225	29,307	20,479	459	(7,575)	(5.64)
Koniag, Inc.	3,344	1.5 mil	41.6	20.1	1,967	8,815	5,720	7,447	1,368	1,081	241	(2,036)	(6.82)
Nana Reg. Corp., Inc.	4,828	1.4 mil	60.2	29.1	10,407	69,120	16,044	18,340	50,780	27,837	629	4,252	5.79
Sealaska Corp.	15,819	590 thou	198.6	96.0	65,884	162,637	57,041	90,491	72,146	215,077	1,034	1,803	(.27)

[1]Total of ANCSA Section 14(h)(2), village and 12(c) selections. Calculation excludes 14(h) selections.
[2]Financial data for 1984 adjusted for comparability (removed ANCSA lands, receivables from assets and shareholders' equity).
Net income includes extraordinary items (income or expense not derived from the current year's operations) but earnings per share is calculated prior to extraordinary items.
N/A — Financial information is not available.
Source: Compiled from ANCSA Study 1985:V-35 and corporation annual reports.

through 1982. Furthermore, the early eighties were marked by a money market crisis characterized by both high interest rates and increasing market volatility. High interest rates had the effect of limiting debt market access to only the most credit-worthy borrowers.

Investments of the Alaskan regional corporations during the period 1974-84 ranged from portfolio investments in term deposits and marketable securities to direct business investment activity. However, direct business investment was the dominant approach to utilizing the new capital, and most corporations established new businesses and purchased existing businesses on their own or with joint venture partners. Investments were made in a number of Alaskan resource-based industries, including sand and gravel, timber, minerals, fishing and petroleum exploration. Further Alaskan investments were made in support services in the fields of transportation and distribution, wholesale and retail trade, communications, banking, real estate, consulting and commercial construction.

Generally, regional corporation investments tended to be made within their own particular regions, but diversification at the state level also occurred. Most ventures were on a modest scale, although a number of corporations worked toward major mineral and renewable resource projects. Development of the regional service sectors occurred more frequently because the process of actually transferring the ANCSA land base to the corporations was greatly prolonged. The delay in land conveyancing directly impeded access to natural resources, and therefore their development and marketing by the regional corporations. Regions also varied widely in their resource potential.

We now turn to an examination of traditional financial performance ratios, including leverage (the use of supplementary debt capital to increase the returns on equity) and profitability (return on equity), for 11 (2 corporations do not make this information available) of the 13 regional corporations for the period 1974-84. These ratios are used to evaluate the relative performance of the regional corporations. They measure the current financial performance of an organization relative to its past, as well as relative to outside benchmarks, such as comparably measured ratios of competing companies. The data set is also described using basic summary statistics regarding the sample distribution of the performance indicators including means, standard deviations and ranges for each year (Table 2).

Corporations "leverage" themselves when they borrow money from lenders to increase their available capital. The greater the resource to borrowed money (or debt capital), the more financial risk a corporation assumes. Given the choice, most corporations would prefer to raise capital via sale of shares (equity capital) than by incurring debts to lenders. When an individual buys shares, he or she personally places money at risk in the hands of corporate management. If this money is poorly invested, share values fall and investors suffer. When an individual lends money to a corporation, the loan generally is secured against corporate assets, and a schedule of repayment is formalized by contract. If this loan is poorly invested and repayment becomes a problem, the corporation may be forced to sell assets to comply with its contract obligations. To the degree that essential performing assets are sold off to satisfy the debt, the continued existence of the company may be called into question. Con-

TABLE 2. Financial performance ratios — mean, standard deviation and range by regional corporation for the period 1974-84

	Leverage	Profitability
Ahtna		
mean	0.21	0.06
standard deviation	0.09	0.05
minimum	0.08	0.03
maximum	0.39	0.15
Aleut		
mean	0.36	−0.03
standard deviation	0.17	0.09
minimum	0.14	−0.20
maximum	0.60	0.07
Arctic Slope		
mean	0.47	−0.01
standard deviation	0.12	0.26
minimum	0.27	−0.58
maximum	0.66	0.23
Bristol Bay		
mean	0.40	0.03
standard deviation	0.23	0.09
minimum	0.05	−0.14
maximum	0.71	0.23
Calista		
mean	0.34	−0.08
standard deviation	0.18	0.08
minimum	0.07	−0.23
maximum	0.67	0.04
Chugach		
mean	0.31	−0.12
standard deviation	0.16	0.09
minimum	0.03	−0.28
maximum	0.64	0.03
CIRI		
mean	0.24	0.10
standard deviation	0.09	0.08
minimum	0.06	−0.02
maximum	0.35	0.22
Doyon		
mean	0.16	−0.06
standard deviation	0.12	0.19
minimum	0.06	0.58
maximum	0.45	0.07
Koniag		
mean	0.33	−0.36
standard deviation	0.24	0.59
minimum	0.12	−1.59
maximum	0.84	−0.01
NANA		
mean	0.30	0.03
standard deviation	0.09	0.03
minimum	0.20	0.00
maximum	0.55	0.08
Sealaska		
mean	0.23	−0.01
standard deviation	0.19	0.05
minimum	0.02	−0.14
maximum	0.55	0.06
Total		
mean	0.30	−0.04
standard deviation	0.18	0.24
minimum	0.02	−1.59
maximum	0.84	0.23

Leverage: total debt/total assets.
Profitability (return on equity): net income/average total equity.
Source: Wuttunee, 1988.

sequently, the ratio of total debt to total assets is an important indication of financial health: the higher the proportion of debt to assets, the greater the risk of default on debt repayment obligations.

The use of leverage by the 11 regional corporations reviewed by the authors averaged 30% for the period of study (1974-84). In this way the regional corporations financed one-third of their asset book values by debt capital. The leverage ratio actually rose from 14% in 1974 to 38% in 1984. Table 2 indicates that the Aleut, Arctic Slope, Bristol Bay, Calista and Koniag regional corporations all averaged 33% or greater leverage ratios for the period of study, reflecting aggressive use of debt financing from their corporate inception. While these figures may be misleading, especially if increased annual leverage ratios indicate greater borrowing to finance renewable resource production, they do show a strong reliance upon debt capital for corporate operations. This reliance upon debt has placed corporate assets in jeopardy and, given the strong reliance on local business investment, has linked the financial health of the regional corporations to the financial well-being of Alaska. With its pronounced history of economic boom and bust cycles, Alaska is certainly a questionable venue for such an investment strategy.

A corporation's profit and ultimately its success can be described by the rate of return earned on shareholders' (or owner's) equity. Return on owner's equity (ROE) denotes the rate of return earned by an organization's shareholders. The rate of return should reflect the perceived risk of the corporation from an equity holder's perspective.

This measure is very poor for the sample of the 11 corporations described, showing a cumulative negative return of 4% for the period 1974-84. Individually Cook Inlet Regional Corporation has the best relative profitability result, with an ROE of 10%. Seven of the 11 corporations had a negative average ROE for the period. Interestingly, 4 of the 5 corporations with the high average leverage ratios (Aleut, Bristol Bay, Calista and Koniag) also had negative ROEs, raising the question of their overall financial stability. At this time Calista Regional Corporation's creditors are trying to foreclose on a $20 million loan and Koniag Regional Corporation is having severe problems (Wuttunee, 1988). The Bering Straits Regional Corporation has filed for bankruptcy. It appears from this analysis that business ventures established in a risky environment do not always promote economic and socio-cultural sustainability.

Since the publication of Berger's *Village Journey* (1985), the regional corporations mounted a strong congressional lobby to have ANCSA amended to prevent the land base from falling vulnerable to unsatisfied creditors and corporate takeovers in 1991. This was achieved at the end of 1987. The U.S. Congress passed the Alaska Native Claims Settlement Act Amendments of 1987 (P.L. 100-241, 101 Stat. 1788), which restricted the ability to sell or otherwise alienate shares — unless approved by a majority of stockholders — and also extended the tax exemptions on undeveloped ANCSA lands (Morehouse, 1988).

THE STATE OF ALASKA'S STRATEGY: PORTFOLIO MANAGEMENT AND THE ALASKA PERMANENT FUND

This section presents a different strategy for the investment of trust capital, the use of permanent trust funds in portfolio investment. Simply defined, permanent trust funds are government-administered accounts for the management and investment of public money, with a special purpose designated for the disposition of fund capital and income. The government administers and invests the rents obtained from common property resources (e.g., royalties or severance taxes on non-renewable resources) and stewards these rents for the public good. Trust funds usually enjoy some special protection that restricts the use and expenditure of the principal.

In our discussion, trust funds are regarded as a public entity for the preservation of resource revenues, predicated upon two basic features. First, the fund strategy assumes that natural resource revenues should not be used for current consumption alone, but rather should be extended across several generations or in perpetuity. As the land belongs to both present and future generations, its wealth should be used to benefit all generations. Trust funds provide a means of saving some of the wealth derived from non-renewable resources for use in the future.

Second, trust funds provide a means to replace resource rents, which will eventually decline and ultimately cease to exist altogether. A region dependent on non-renewable resource income will see those resources depleted; after that, both production and revenues will stop. However, if some of the resource revenues have been saved over time, they will provide a pool of investment capital that will earn interest and dividend income and ultimately replace the non-renewable resource revenues (Fig. 2). In this sense trust funds transform a non-renewable energy or mineral resource into a renewable financial resource.

Trust funds may be classified into two basic types (Pretes, 1988). The first type, a pure "trust" model, emphasizes savings. Key objectives of this type of fund are security of principal, avoidance of risk and the generation of income. Fund managers operating under a trust model will select investments based on financial criteria alone. They will search for the best investment, that providing a high return with a low risk, whether or not the investment is located inside or outside the region. In many cases this involves investing money outside of the state or province. Trust models

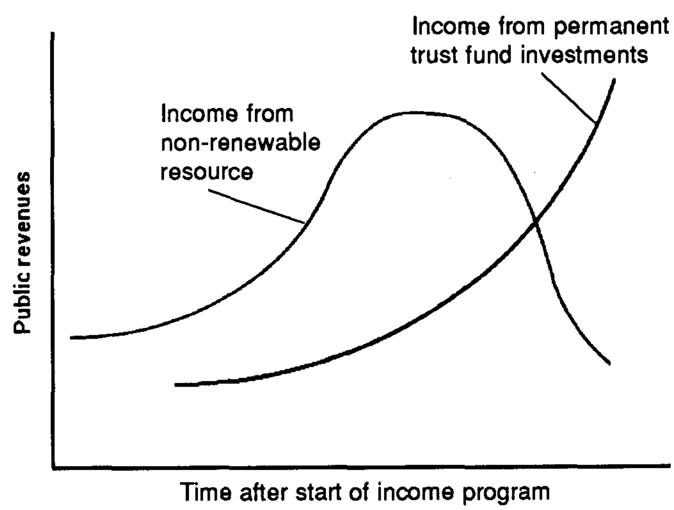

FIG. 2. Relationship between permanent trust fund income and non-renewable resource income, with trust fund income replacing resource income as time goes on.

emphasize stability, diversification of the portfolio and guaranteed return.

The second type of fund model is "developmental." This type also takes into account social criteria when investing. A developmental fund will maintain investments within the region in the hopes of stimulating employment or providing local capital. Some low-risk, high-income investments will be sacrificed in favour of those with a direct local impact. Developing infrastructure and diversifying the local economy are two paths open to developmental funds. Their investments may not produce a financial return, but they may provide some intangible benefit to the local community. Developmental funds emphasize local commitment, a restructuring of the economy and investments with a positive social contribution.

A combination of these principles is also possible. Several of the trust funds mentioned below divide their portfolios between financial and social investments. We advocate a combination of the two models, with a tilt toward the trust concept.

Permanent trust funds are usually a feature of regions that depend on non-renewable resource income. Funds have been established both on an international and sub-national basis. Some examples of international funds are found in Venezuela, Saudi Arabia, Kuwait, Iran and Oman. All of the funds noted developed from excess oil revenues. Since a northern Canadian fund would operate on a sub-national level only, international funds will not be examined here; instead, we will look only at sub-national funds. Some examples include the Alberta Heritage Savings Trust Fund, the Permanent Wyoming Mineral Trust Fund, the Montana Permanent Coal Trust Fund, the New Mexico State Permanent Fund, the New Mexico Severance Tax Permanent Fund and the Alaska Permanent Fund Corporation.

The Alberta Heritage Savings Trust Fund (AHSTF) exemplifies the developmental fund model. The AHSTF invests heavily within the province of Alberta through the purchase of bonds in provincially owned corporations. It also consists of social assets that do not produce a return and include such items as irrigation projects, rail hopper cars, a provincial recreational park and medical and academic scholarship endowments. A smaller part of the AHSTF is invested in a diverse stock and bond portfolio and in loans to other provinces.

The permanent trust funds of New Mexico, Montana and Wyoming have adopted a combination of the developmental and trust approaches. Although these funds are much smaller than their Alberta and Alaska counterparts and are neither northern nor Canadian, they are nevertheless worth some consideration as they developed without the massive resource revenue windfalls that accrued to Alberta and Alaska. Information on these funds and their investment practices, as well as information on the AHSTF, is given by Pretes and Robinson (1989).

Alaska illustrates an example of a permanent trust fund predicated on trust principles. The Alaska Permanent Fund (APF) emphasizes security of principal, high return and the use of financial criteria only in investment selection. It is to the APF that we shall turn to examine the strategy of portfolio management in the context of a permanent natural resource trust fund.

Much has already been written on the Alaska Permanent Fund and we will not go into detail here. However, some discussion is necessary to illustrate the differences in investment strategy between the APF and the ANCSA regional corporations.

Alaskans conceived of a fund in the early 1960s, although this did not really gain support until shortly after the major oil discovery at Prudhoe Bay (Bradner, 1987). A number of factors, most important the rapid rise in oil production, the construction of a new pipeline and the quadrupling of world petroleum prices, combined to give the state massive resource revenues within a short period of time. Alaskans began to consider the options for use of the revenues, as well as the implications for the state and its future. After seeing $900 million from the sale of the first leases spent on state capital projects in a short time, residents of the state viewed a trust fund as a stabilizing mechanism that would provide some restraint on massive government spending. In 1976 the establishment of a permanent trust fund was approved by the voters in a statewide referendum. At least 25% of mineral royalties and other resource revenues (but not severance taxes) were required by the state constitution to be deposited into the APF (APF, 1987a). This provision, plus substantial additional transfers of excess revenues from the general fund, allowed the APF to grow at a rapid rate, and the total balance is now over $9.7 billion (APF, 1988b).

Several features of the APF warrant special attention and should be taken into account in the consideration of a northern Canadian model. These are investment policy, management and accountability, inflation proofing, the dividend program and fund publicity.

The APF operates primarily as a trust, although it does have a developmental function, through the dividend program, as well (Pretes, 1988). The APF has three objectives: 1) to save a portion of the wealth generated through non-renewable resource development; 2) to protect these savings from loss of value; and 3) to invest these savings to produce an income (Alaska Statutes 37.13.020). These objectives appear to have been adequately fulfilled, due in large part to skillful financial management and an income-oriented investment strategy. The fund has managed to save 21% of the $28.8 billion derived from the Prudhoe Bay oil fields (APF, 1988a). There has been no loss of principal, even when inflation is taken into account, and the fund now produces an income of about $1.0 billion a year.

The APF actually consists of two different accounts, shown in Figure 3. The fund itself is constitutionally protected, and no principal may be withdrawn without the support of a majority of Alaskans as evidenced through a referendum. Income from the fund is deposited into the Earnings Reserve Account, and distribution takes three basic forms. The smaller Earnings Reserve Account may be appropriated by the state legislature. A large part of the income is placed in the Permanent Fund, where it becomes inviolate, requiring a constitutional amendment to withdraw it. This takes place through both inflation-proofing provisions (see below) and special transfers. The remaining funds are either apportioned out as dividends (see below) or retained in the Earnings Reserve Account. As of late 1988 the Earnings Reserve Account had a balance of $0.7 billion, while the Permanent Fund contained $9.0 billion (APF, 1988b).

The investments themselves emphasize security and an income-oriented approach. The 1987 allocation target was 83% in bonds, 12% in stocks, and 5% in real estate (APF, 1988a). Most of the bond portfolio consists of high-quality Treasury bonds, backed by the United States Government. They are very low risk and have produced a realized nominal annual return of 11.5% and a total annual return of 13.6% averaged over the last five years (APF, 1987a), where realized return refers to the actual gain the fund made from the sale of an asset. Unrealized gains are those where the value of the asset has increased, but it has not yet been sold. The stocks have also done very well, earning a total return of 22.2% for the fiscal year ending 30 June 1987. The stock market crash of October 1987 had only a minimal effect on the total portfolio (APF, 1987b). Real estate has also done well, with a realized return of 7.5% in fiscal 1987 and a total return of 12.3% over the same period (APF, 1988a).

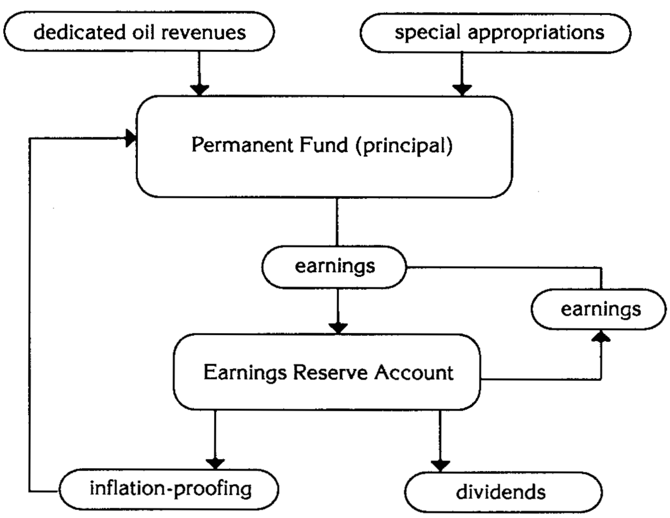

FIG. 3. Organization of the Alaska Permanent Fund, showing the Permanent Fund and the Earnings Reserve Account. Source: Alaska Permanent Fund, 1987a.

It should be noted that nearly all of the APF investments have been made outside the state, with only about 5% within Alaska. This strategy is based on the argument that capital markets are functioning adequately in Alaska and that there is no need for government intervention to subsidize development. The testimony of economists Kenneth J. Arrow and Maxwell J. Fry, among others, before the board of trustees of the Permanent Fund indicated some of the problems associated with the state assuming the role of financier (Arrow, 1982; Fry, 1982). If a project is worthy of investment, outside capital will support it, and it is unnecessary for the government to get involved. Moreover, if investments are made outside Alaska, then when the Alaska economy is experiencing a downturn, it is likely that the well-balanced portfolio will not be seriously impacted. Only financial criteria are considered. By way of example, it can be noted that the real estate investments are distributed as follows within the United States: 41% in the eastern United States, 23% in the South, 17% in the Midwest and 19% in the West. Investments are made where the potential for investment returns is the best, and local investments — which are not only risky but also subject to political bias — are eschewed.

The management structure of the fund is an important aspect in terms of avoiding political and social biases, which open funds to charges of being nothing more than "slush funds." In Alberta, for example, the Alberta Heritage Savings Trust Fund is managed by the provincial cabinet alone, which, despite the advantages of operating in secret, opens the fund to charges of back-room politics, personal interest and elite decision making. The APF has avoided these charges by adopting a public decision-making style that is partially removed from political pressures. Part of this is based on the investment strategy outlined above. If substantial investments were to be made within the state, one would expect that various regions and interest groups would compete for a share of the distribution.

The APF is managed by a board of trustees, the members of which serve staggered four-year terms. One member is the commissioner of the Department of Revenue, and another is a cabinet officer selected by the governor. The remaining four trustees, also selected by the governor, are chosen from the private sector and must have demonstrated experience in financial management. These latter four members serve in a voluntary capacity and receive no salary, only a $400 honorarium for each day spent in board or public meetings. Board members have included local businessmen, bankers and directors of Native regional corporations.

The board of trustees is responsible for general investment policy. There is also a staff, including an executive director, that handles the day-to-day operations of the fund. More specific investment decisions are the responsibility of the private financial investment firms hired by the fund to manage the portfolio. Each of these is accountable not only to the board, but also to the Alaskan public, for they may be asked at public meetings to justify and explain the investment choices and returns on the sections of the portfolio on which they advise. The trustees, too, appear at frequent public meetings held in various cities to answer questions about the fund. This open and accessible style of management permits citizen participation and prevents political biases from dominating the investment strategy. After all, it is public money, and all Alaskans are beneficiaries of the trust fund.

An important feature of the APF is the inflation-proofing provision. Without such a provision, inflation would eat away at the return on investment and ultimately reduce the value of the principal. This is one of the most forward-thinking aspects of the Alaska investment strategy and is very important for any Canadian fund model. Alaska Statute 37.13.145 requires the reinvestment (transfer from the Earnings Reserve to principal) of an amount necessary to offset the rate of inflation in the previous year. For example, if the value of the principal declined by 5% due to a 5% rate of inflation, this amount would have to be transferred to principal to retain the same value in current dollars. Without this provision, the current dollar value and purchasing power of the fund would be seriously eroded. Permanent Fund economists have calculated the probable inflation rates each year up to 2005, based on various assumptions. These calculations, coupled with estimates of oil prices and probable rates of return, allow fund managers to project the size of the fund's income and principal over the next 20 years. This is an important component of the state budget, especially as oil revenues continue to decline.

A unique feature of the APF is the annual distribution of part of the fund's income in the form of dividends to residents of the state. Since the program was instituted in

1982, dividends have ranged between \$331.29 to \$1000.00 per person, paid annually. Table 3 shows the size of the dividends from 1982 to 1987.

TABLE 3. Alaska Permanent Fund dividend amount per capita since the inception of the program in 1982[1]

Year	Per capita dividend
1982	\$1000.00[2]
1983	386.15[3]
1984	331.29
1985	404.00
1986	556.26
1987	708.19

[1]All amounts given in United States dollars.
[2]Funding source was a legislative appropriation from the General Fund.
[3]Funding source was a combination of General Fund revenues and Permanent Fund earnings.
Source: Alaska Permanent Fund, 1988a.

Dividends are paid out of fund income. Averaged over the last ten years, about 34% of total fund income has been distributed in the form of dividend payments. Figure 4 shows the distribution of APF income, including the amount paid out as dividends.

The amount of the annual dividend was formerly calculated as 50% of the "average net income of the Corporation for the last five fiscal years" (Alaska Statutes 37.13.140). However, effective 1 July 1986, this statute was amended and the new formula provided for half of "21% of the net income of the Corporation for the last five fiscal years." Hence, a larger proportion of fund income was earmarked in 1986 for dividend distribution.

The dividend program serves several functions in the state. It is based in part on the argument that individual Alaskans, rather than the state government, should spend the money. In this sense it gives residents greater freedom of choice in the disposition of state wealth. Another feature is that it "buys" support for the APF by helping to ensure that the fund principal will be protected, as few Alaskans would call for a depletion of the fund since their annual dividend depends on it. In Alberta, for example, there has been considerable call for spending the principal of the Alberta Heritage Savings Trust Fund. This demand for immediate expenditure of fund principal has been largely avoided in Alaska, due in part to the fact that individual Alaskans have a personal stake in the APF and its continued success. The dividend program also helps in matters of accountability. The amount of the annual dividend is in part a reflection of the financial success of the fund — the larger the income, the larger the dividend. A drop in the size of the dividend would prompt questions from recipients as to why the income declined.

From a macro perspective, the dividend program has had a positive overall effect on the economy of Alaska. A study conducted in 1984 by economists at the Institute for Social and Economic Research at the University of Alaska (Knapp *et al.*, 1984) indicated both widespread public support for the program and a positive impact of the program on the Alaska economy. Their study notes that about 60% of Alaskans favour the program, 30% have mixed feelings and only about 10% think it is a bad idea. For 17% of Alaskans, the 1982 dividend — the largest paid so far — represented more than a 20% increase in family income. The dividends also accounted for 17% of the increase in disposable income for the years 1981 - 83. The dividends have also helped to create 5000 new jobs in the state, but they have had little impact on inflation. Dividends also generated employment growth in sectors not normally affected by direct government expenditures. Government expenditures tend to enhance growth in government- or construction-related industries, while the dividend program prompted growth in support industries, such as trade, services and finance (Knapp *et al.*, 1984) — interestingly enough, the national growth sectors of the Canadian economy (Clarkson Gordon/Woods Gordon, 1986). Today, dividends are the fifth largest primary industry in the state, after oil, federal government spending, fishing and tourism (APF, 1987a).

Although the dividend program resulted in advantages to the state, there are some disadvantages inherent in such a policy. The most significant is that the payment of dividends depletes the government's financial wealth, just as public spending in the form of infrastructure reduces state assets. Dividends are another form of public spending, and if state revenues drop, state spending in the form of dividends will be affected. Thus, while short-term benefits may be evident in the guise of higher employment, higher personal income and other similar indicators, this cannot be maintained when fund and state income are reduced. Any potential dividend program forming part of a Canadian fund will have to take into account the depleting aspect of dividends as a type of public spending.

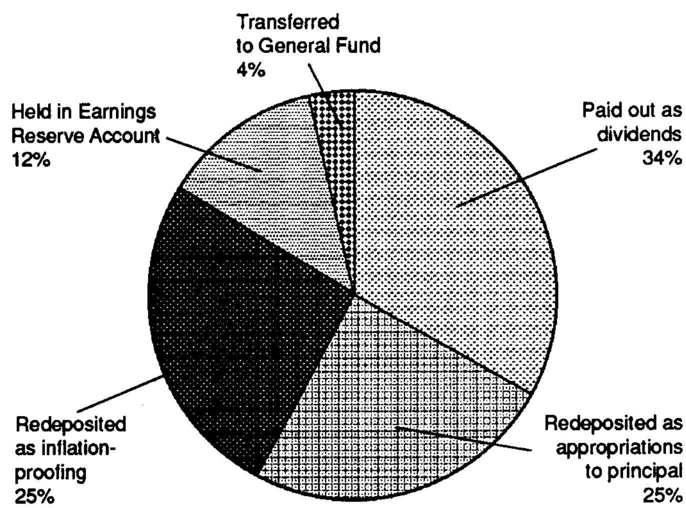

FIG. 4. Distribution of Alaska Permanent income since inception in 1977. Source: Alaska Permanent Fund, 1988a.

As the function of permanent trust funds is to foster and protect public money held as a common property resource, there is a duty on the part of the fund administrators to inform and educate the public about the disposition and investment of the funds. The APF has developed a comprehensive public awareness program designed to inform Alaskans about their fund. Financial information about the APF is freely available; both annual and monthly financial reports are distributed to anyone who requests them. These reports contain a fairly detailed discussion of the fiscal state of the fund. Balance sheets and statements of changes in financial position are supplemented with listings of real estate properties acquired, for example. These statements are audited by external private firms, and hence are subjected to generally accepted accounting principles.

More direct components of the public information program include open meetings, the speakers bureau, television programs and direct-mailed brochures. The speakers bureau provides speakers to various civic functions to inform the public about the fund. A television video is also available, and this has been extensively used in junior and senior high schools throughout the state. The brochure, entitled *Your Alaska Permanent Fund* (APF, 1987c), is mailed out with the dividend cheques, reaching every resident. Public awareness is necessary to retain support for the APF; a counter example can be found in Alberta, where information is very limited and 50% of the population does not even know the value of the Alberta fund (Nikiforuk *et al.*, 1987).

The APF has succeeded in preserving a portion of Alaskan non-renewable resource revenues for the benefit of future generations and in producing an income for the state, utilizing a trust concept. This approach is premised upon the saving of principal, the reinvestment of income, and the emphasis on a diversified investment portfolio.

A MODEL NATURAL RESOURCE TRUST FUND FOR NORTHERN CANADA

1988 has been a signal year for the promotion of northern autonomy. In 12 months the Dene/Metis and Yukon comprehensive land claims have both moved from the decade-long negotiations to the agreement-in-principle stage, and both the Yukon and the Northwest Territories have signed agreements-in-principle on Northern Accords (Canada, 1988a,b,c). All four agreements identify principles under which final agreements will be negotiated over the next two years, and all four will create the necessary preconditions for a series of model trust funds in the Canadian North. As well, the Tungavik Federation of Nunavut is also working toward an agreement-in-principle that may also endorse the trust fund concept.

The Dene/Metis agreement-in-principle provides cash compensation of $500 million in 1990 dollars. This compensation money will be paid over 15-20 years and will accumulate interest at about 10% after the final agreement. While the compensation provisions do not become activated until the signing of the final agreement, local discussions are already under way regarding investment policy:

> About 100 Native leaders and businessmen unanimously passed a resolution on Thursday to put money from a land-claims agreement in a trust fund to be invested in "a safe and prudent fashion." [Globe and Mail, 1988.]

The Dene/Metis cash compensation is to be managed by "organizations . . . to be described in the final agreement" (Dene/Metis Negotiations Secretariat, 1988). Interestingly, these "organizations may be trusts or corporations" (Dene/Metis Negotiations Secretariat, 1988) and they will be entirely owned and controlled by the Dene/Metis. Membership or shareholdings in these organizations will not be transferable. Clearly the negotiators have learned from the share transfer problems created by ANCSA.

The Yukon Land Claim Framework Agreement (DIAND/CYI, 1988) provides cash compensation in the 1988 aggregate value of $232 million. At present this compensation will be paid out in 15 consecutive annual payments, commencing on the date of signature of the Final Agreement. With respect to investment policy, settlement corporations will be created without share capital and with the capability to provide loans to individuals to enhance commercial fishing, traditional harvesting and cultural activities and to create an elders assistance program. Interestingly, the loans so provided may not establish a controlling equity interest in any venture. As well, settlement corporations shall only make investments in accordance with the provisions of Schedule III of the Pension Benefit Standards Act.

The Government of Canada, the Yukon Territorial Government and the Council for Yukon Indians state their support for the concept of an Indian-controlled trust company, and they further agree to examine the potential viability of such an institution. If such a trust company appears viable, all parties to the agreement will facilitate its creation. Once again it appears that the beneficiaries are at least considering the creation of trust funds.

The two Northern Accord agreements-in-principle (AIPs) also contemplate new revenue sources for the Yukon and the Northwest Territories. Specifically, both Northern Accord AIPs commit all oil and gas revenues from onshore for the use and benefit of the territorial governments. Similarly, all offshore Beaufort Sea revenues will be shared by and for the use and benefit of the territorial governments (Canada, 1988c). The negative aspect of these AIPs, however, is the provision stating:

> that as oil and gas revenues become available, federal assistance under the Formula Financing Agreement or successor agreements will be reduced. [Canada, 1988c.]

While federal transfer payments to the Yukon will not necessarily be eliminated when (and if) oil or gas starts to flow south, they will certainly be trimmed. Faced with becoming oil and gas revenue masters in their own houses, both the Yukon and the Northwest Territories have a clear incentive to establish some sort of trust fund against the day when non-renewable resources run out.

Economists are already asking why either government would bother to deplete a non-renewable resource if the Canadian Government is still committed to transfer payments under the Formula Financing Agreement (Calgary Herald, 1988). Obviously the federal government believes that it can find a formula that will promote development of offshore and onshore reserves (should they exist in marketable quantities) by paying a form of cash bonus to the Yukon and the Northwest Territories. Should marketable energy reserves be established and the elusive formula be found, some new money (in excess of existing federal transfer payments) will flow to the territorial government(s), and they will be faced with the problem of preserving trust capital from a depleting resource. When faced with this prospect they too will have reached the stage where the establishment of a natural resource trust fund makes eminent good sense.

As we have seen in this paper, a natural resource trust fund is an option available to both Native beneficiaries and northern legislatures. We have examined only financial strategies — local business investment and portfolio management — and suggest that the latter may be more appropriate in general terms to remote regions such as the Canadian North. While social and cultural factors in selecting a strategy are of equal importance, these are usually case-specific and as such we do not deal with them here. Future research should be directed toward these issues, and case studies may be the most germane form of analysis.

In designing the ideal Canadian model of such a trust fund, we can benefit by the experiences of Alaska, Alberta and the Rocky Mountain states in their molding and adaptation of trust fund models. At the outset we must examine the following issues:

- primary trust fund objectives,
- legal structure of the fund,
- developmental assistance philosophy,
- management philosophy and accountability,
- investment mix,
- dividend philosophy, and
- public information, review and education processes.

In our discussion of the ANCSA and APF objectives we have seen both conflict (profit maximization versus social responsibility and cultural preservation) and simplicity (profit, inflation proofing and dividend distribution) at work. We conclude that new funds must avoid structural conflict of objectives and at the same time provide greater detail about desired ends. Any new fund should clearly consider the primary roles of risk, liquidity and rate of return on investment.

Cautious preservation of the majority of fund capital is important. In the quest for sustainable development, the fund itself must be sustained. Following the lead of the APF, any new fund must be inflation-proofed on an annual basis, and sufficient investment revenues must always be generated to enable capital preservation. While an element of risk must be present in the fund's developmental portfolio, this risk must be clearly offset by an investment core that pays a guaranteed rate of return sufficient to provide inflation proofing. Maintenance of this investment core will limit investment income available for developmental work but will guarantee a sustainable fund.

Liquidity objectives must support the cautious preservation of fund capital. Consequently the fund must not develop excessive "deemed assets" that may diminish in value (e.g., real estate portfolios, public works, etc.) and must not tie up capital for long periods of time in assets that are vulnerable to depreciation. A careful blending of government bonds and treasury bills is therefore recommended as the investment core of the fund.

Rate of return on investment must be sufficient to preserve the capital and generate investment income to enable the local developmental work of the fund. The developmental work will draw revenues from blue chip stock dividends, accrued interest from bonds and treasury bills and selective business risk investments of fund capital.

To a large degree the legal structure of natural resource trust funds depends on how control is exercised by the beneficiaries (either the state or land claim beneficiaries). Mechanisms of control can range from a bank account registered in the name of the trustee to a corporation run by the trustee for the benefit of the beneficiaries. Territorial and federal tax consequences for investment and interest income will also condition the legal form of trust funds held by non-governmental beneficiaries. Among governments, trust fund legal structures may also show considerable variation, as, for example, between Alaska and Alberta. Whereas Alaska opted for incorporation of the fund with management by an appointed board of trustees, Alberta settled for legislative enactment of a fund managed by the provincial cabinet.

In general the establishment of a corporate trust fund structure seems the preferred path to follow, with an appointed board of trustees who serve in this capacity for a specified term and whose appointment is made by the beneficiaries — either Native people or residents of the Territories, depending on the fund. Standard annual corporate reporting and audit requirements will therefore be guaranteed by law, and political meddling in investment policy will be minimized.

Given the checkered history of industrial development in the Canadian North and the continued village reliance on the bush economy, developmental assistance to regionally sustainable small businesses offers an attractive avenue. Pretes and Robinson (1989) explored the relationships between natural resource trust funds and sustainable economic development and suggested five mechanisms for the promotion of multisectoral sustainable development initiatives:

- direct allocation of investment income from the trust fund by way of grants to sustainable multisectoral development ventures;
- investment of trust fund principal in prudently managed banks and/or trust companies;
- selective and controlled investment of trust fund principal in small business start-ups;
- loans from the trust fund to locally controlled small businesses; and
- per capita disbursement of investment income to beneficiaries to stimulate local purchasing power.

A developmental provision would be allocation of trust fund investment income to an aggressive beneficiary scholarship program. Recent community economic development research has underscored the importance of human capacity building prior to direct investment in new enterprise development (Centre for Community Economic Development, 1988).

The above mechanisms are recommended as useful guidelines for the establishment of a developmental assistance policy to promote northern sustainable development. In this way both trust fund capital and investment and interest income can be allied to build regional autonomy and self-reliance.

Given that political interference in investment decisions must be minimized, the beneficiaries should work to create a management philosophy that favours investment talent and a team-work approach. As we have seen in the APF example, the state's governor appoints a six-member board of trustees, two of whom are members of the Alaska cabinet and four of whom are public members appointed solely on the basis of fiscal management skill and relevant past experience.

Given that natural resource trust funds are themselves the political creations of public beneficiaries, there is a need to reflect at least a modest level of political input. The crucial issue is the balance of political versus financial input to management decisions. In this respect the APF board structure is a most appealing management model, and when allied with the APF corporate structure it also satisfies annual public reporting requirements.

Once a corporate structure and objectives are agreed upon, the developmental assistance philosophy chosen and the management team appointed, it is time to develop the investment mix. Fund management should be constrained to develop the investment mix on the basis of prudent management and diversification, with direction from the beneficiaries. The primary objectives will be determined politically by fund beneficiaries and trustees, while the investment mix will be determined non-politically on the basis of prudent investment opportunities. Hence, the selection of competent and experienced investment managers is paramount.

In allocating investment percentages of principal within a hypothetical Native or territorial trust fund, managers will be constrained by the primary objectives and developmental assistance philosophy of the fund. Judging from the experience of the Alaskan Native corporations, efforts should be made at the outset (and perhaps for the first 10-20 years of fund management) to minimize local business risk investment. Therefore an initial 5% allocation to small business loans and/or equity positions makes good sense. If the beneficiaries desire potential board membership in banks and trust companies, and thus some degree of influence in the creation of lending policy, a 10-25% equity position in soundly managed and regionally active financial institutions would be appropriate. At least 60% of the principal should be invested in Government of Canada bonds and short-term secure investments, such as treasury bills, however, to root the fund against the vagaries of equity investment. Finally, a 10-25% position in globally chosen blue chip common stocks could be taken to enable the fund to benefit from international market forces. All of the above investment decisions must be weighed by the fund managers against the three primary objectives of the fund in terms of risk, liquidity and rate of return on investment.

The dividend philosophy may be defined either in the legislative or policy objectives or by the fund managers in the absence of direction from the beneficiaries. Options range from total diversion of all income (i.e., interest income, stock dividends and profits from real estate transactions) into the general fund of a government to depress tax levels to various partial diversion schemes, which enable inflation proofing of principal and some level of per capita disbursements to beneficiaries.

Caution and public deliberation are recommended prior to choosing a dividend philosophy. A considerable range of opinion and experience exists on the efficacy of per capita disbursement programs. Albert Diamond, of the James Bay Cree, says that his people avoided per capita payments as part of their land claim settlement "because of the experience with monthly resource revenue cheques on the Alberta reserves" (pers. comm. 1988). The Cree are now reconsidering a dividend program, however. Conversely, the record in Alaska with respect to the annual disbursements from the Permanent Fund is much more positive. The Institute of Social and Economic Research study (Knapp *et al.*, 1984) noted that the Alaska dividend program has had a positive overall effect on the Alaskan economy.

At the level of financial management, a policy of building up fund capital for the first years is advised so that dividends, if implemented, will be of a significant size to be meaningful in the hands of recipients. Fund managers may want to consider a special disbursement program for elders, who may not be around to participate in long-term benefits. Also, following the Permanent Fund's lead, dividends should not be greater than one-half of the fund's annual income, so that income can be consistently applied to inflation proofing the principal and held in reserve for other investment projects, such as equity positions in and loans to sustainable regional small businesses — including wildlife harvesting and country food support programs.

If a corporate model is adopted for a northern natural resource trust fund, the beneficiaries will have access to the traditional reporting mechanisms specified in the appropriate territorial legislation. Annual reports and accounting audits would enable beneficiaries to review the fund's management with objective data and to signal their pleasure (or displeasure) to management. Successive quarters (or years) of poor financial performance would provide grounds for management changes and a rethinking of investment philosophy. Low dividend cheques would also provide a signal to the beneficiaries that something was amiss. Those same processes would also provide grass-roots education and training for the beneficiaries in the conduct of corporate affairs and, we hope, promote a better understanding of the business milieu. While the legal reporting and audit requirements of the corporate model trust fund would supply the necessary objective data for review purposes, the fund administrators should also prepare and disseminate pamphlets and videos to educate the public. The example of the APF is worthy of close study in this respect.

CONCLUSION

This paper has reviewed the investment strategies of Alaskan Natives and the Alaska state government for the handling of windfall revenues in the 1970s. It is concluded that business risk investment in a remote and isolated economy is inherently risky, and especially so when corporate directors have little experience in business management and a conflicting mandate from their shareholders. Conversely, portfolio management is seen to offer a far greater return on investment and, via dividend distribution, to promote real job creation in the service and information sector of Alaska's economy. By combining the trust aspect of the APF with specified developmental objectives, a model developmental natural resource trust fund seems attractive in northern Canada. Such a fund, if implemented with resource revenues flowing from the imminent Northern Accords and the Dene/Metis and Yukon land claims settlements, could provide the impetus for sustainable small business development, beneficiary education programs and bank and/or trust company development in the North.

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