



Evening the Odds: GIVING INDIGENOUS VENTURES ACCESS TO THE FULL FINANCIAL TOOLKIT

By Dominique Collin and Michael L. Rice



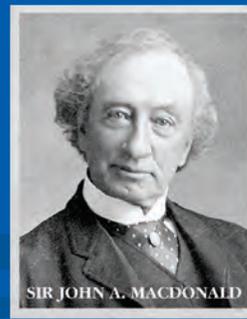
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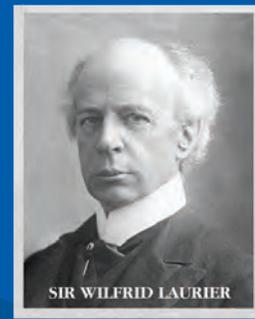
True North in
Canadian public policy



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Executive Summary

Canadians are now aware that First Nations, Inuit, and Métis communities are increasingly becoming strategic partners in major resource and energy business ventures. Two generations ago, energy projects such as the \$2.6 billion Lower Mattagami Project, Northern Ontario's largest hydroelectric project in 50 years, were routinely built with hardly a thought given to the disruption of Indigenous way of life. In contrast, the Moose Cree First Nation has 25 percent equity participation in the 2015 project. And more ambitious ventures yet are on the planning board: even as we write, a group of First Nations is considering not just participation but outright ownership of the Trans Mountain pipeline expansion project.

Indigenous players are becoming involved in business of all kinds, including wind energy, hydroelectricity, potash mining, fisheries, forestry, hotels and, even more recently, cannabis. Indigenous communities are demanding “economic reconciliation.” They expect that they will no longer be the poorest people on their own traditional territories and are finding the capital to make it happen.

To fully achieve this aspiration, Indigenous communities will require access to capital on terms and conditions similar to those enjoyed by other Canadians. There has been progress. This report documents a “coming of age” of Indigenous capital. However, as it also shows, First Nations and other Indigenous groups are still held back from accessing capital by restrictive government policies and a perception that they are risky investments.

This report summarizes research undertaken by the authors on the different sources of market and government capital made available for Indigenous economies from 1975 to 2013, supplemented by additional material on post-2013 capital flows. It demonstrates that First Nations, and Inuit in particular,

have witnessed a steady and impressive expansion in access to capital. Contrary to public perceptions, it is worth noting that **for the first time in Canadian history conventional market sources of capital have overtaken government transfers as the main source of Indigenous economic development capital.** Many Canadians continue to believe that Indigenous ventures are financed through government grants and programs. This study will debunk that misconception.

“For the first time in Canadian history conventional market sources of capital have overtaken government transfers as the main source of Indigenous economic development capital.”

It is important to understand the scale of expansion in this area. Market capital mobilized to support business and economic development in Indigenous communities grew from \$2.8 billion to \$5.9 billion (in constant 2013 dollars) between 2003 and 2013, or 2.5 times the rate of the overall increase in capital at work in Canada during the same period. Clearly, Canadian financial markets have adjusted to the rapid expansion of Indigenous business.

New instruments made their first appearance between 2003 and 2013. The First Nations Finance Authority's approach allowed individual First Nation governments to pool their borrowing needs for infrastructure and community development. As of 2018, the FNFA had accessed over \$600 million from financial markets.

The main source of assisted market finance for small, privately held Indigenous businesses is the microcredit and pre-market loans offered by the Aboriginal Financial Institution (AFI) network. AFIs have been active and growing in loan volume since the late 1980s and investments reached well over \$110 million in annual disbursements in 2017 by which time they had processed over \$2.5 billion in total loans, from a capital base of \$320 million.

The weight of history, combined with the regulatory limitations of the *Indian Act* and other government policies, has produced an extremely heavy burden from which Indigenous communities, development corporations and private businesses have struggled to escape. The data from the research presented here suggest several issues, concerns and ways forward best captured by the following four recommendations for policy change addressed to the Government of Canada by the National Indigenous Economic Development Board (previously called the National Aboriginal Economic Development Board) in their review of the research findings:

- Continue to expand investments in and support for Aboriginal Financial Institutions (AFIs);
- Make a substantive effort to renew the fiscal relationship and to make fiscal fairness and affordable borrowing a reality for Indigenous peoples and communities, which includes addressing current legal and regulatory barriers to accessing capital, as well as exploring and supporting new and alternative lending options;
- Continue to work with Indigenous peoples, nations and governments to expand investments in communities and to enhance the investment climate;
- Enhance the relevance, quality and availability of information to Indigenous households, businesses and communities through a commitment to transparency and openness, as well as supporting Indigenous-led research and data governance.

Indigenous communities have made it clear that they want to become part of the economic mainstream and want to end dependency on government programs. Unfortunately, these communities have faced long-standing obstacles that lock them out of the modern economy, especially when it comes to capital. Indigenous players are already deeply engaged in the economy. But only by unlocking the full financial toolkit will Indigenous communities be able to engage meaningfully in economic reconciliation. The time for concerted action is now.

Sommaire

Les Canadiens savent maintenant que les communautés inuites, métisses et autochtones deviennent de plus en plus des partenaires stratégiques dans de nombreuses entreprises du domaine des ressources et de l'énergie. Il y a deux générations, des projets énergétiques comme celui de 2,6 milliards de dollars de Lower Mattagami, le plus grand projet hydroélectrique du nord de l'Ontario en 50 ans, étaient systématiquement construits sans que l'on se préoccupe des perturbations sur le mode de vie autochtone, encore moins d'une participation au capital de 25 pour cent – celle de la Première nation Moose Cree dans le projet de 2015. En outre, certains projets plus ambitieux sont déjà en préparation : au moment même où ce texte est rédigé, un groupe de Premières nations songe à aller au-delà d'une simple participation, en devenant propriétaire à part entière du projet d'expansion du réseau Trans Mountain. Les acteurs autochtones interviennent maintenant dans des entreprises de toutes sortes – des éoliennes et de l'hydroélectricité jusqu'à l'extraction de la potasse et l'activité forestière en passant par les complexes hôteliers et, encore plus récemment, le cannabis. Les communautés autochtones exigent une « réconciliation économique ». Elles s'attendent à ne plus être les plus pauvres sur leurs territoires traditionnels et se tournent vers le capital pour y arriver.

Pour réaliser pleinement leurs aspirations, les communautés autochtones devront avoir accès à des capitaux selon des modalités semblables à celles dont jouissent les autres Canadiens. Des progrès ont été accomplis. D'ailleurs, ce rapport confirme que le capital autochtone est entré dans sa « phase de maturité ». Cependant, comme il le révèle également, les Premières nations et d'autres groupes autochtones éprouvent toujours des difficultés à mobiliser des fonds en raison de certaines politiques gouvernementales restrictives et de la nature jugée risquée de leurs investissements.

Ce rapport résume les recherches entreprises par les auteurs sur les différentes sources privées et publiques de capital mises à la disposition des économies autochtones de 1975 à 2013, ainsi que certaines informations supplémentaires sur les flux de capitaux postérieurs à 2013. Il indique que l'accès au capital des Premières nations, et des Inuits en particulier, a connu une expansion constante et impressionnante. Il convient de noter que, contrairement à une opinion très répandue, **pour la première fois dans l'histoire du Canada, les sources classiques de capitaux l'ont emporté sur les transferts gouvernementaux pour le financement des immobilisations axées sur le développement économique autochtone.** De nombreux Canadiens continuent de croire que les entreprises autochtones sont financées par des programmes de subvention gouvernementaux. Cette étude débolonne ce mythe.

Il est important de comprendre l'ampleur de l'expansion dans le domaine. Les fonds mobilisés pour soutenir le développement commercial et économique des communautés autochtones sont passés de 2,8 milliards de dollars en 2003 à 5,9 milliards de dollars en 2013 (en dollars constants de 2013), ce qui équivalait à 2,5 fois le taux global d'augmentation des immobilisations en cours au Canada pendant la même période. Manifestement, les marchés financiers canadiens se sont adaptés à l'expansion rapide du secteur d'affaire autochtone.

De nouveaux instruments ont fait leur apparition entre 2003 et 2013. L'approche adoptée par l'Administration financière des Premières nations (AFPN) a permis aux gouvernements des Premières nations de grouper leurs besoins d'emprunt pour les infrastructures et le développement. En 2018, l'AFPN avait mobilisé plus de 600 millions de dollars de fonds sur les marchés financiers.

La principale source d'aide au financement pour les petites entreprises autochtones privées provient du microcrédit et des prêts préalables à la mise sur le marché offerts par le réseau des institutions financières autochtones. Le réseau a été très actif et croissant pour ce qui est du volume de prêts depuis la fin des années 1980 : les décaissements annuels pour les investissements ont atteint bien plus de

110 millions de dollars en 2017. À cette date, le réseau avait traité pour 2,5 milliards de dollars de prêts, par rapport à un capital de base de 320 millions de dollars.

Le poids de l'histoire, combiné aux limitations réglementaires de la *Loi sur les Indiens* et d'autres politiques gouvernementales, a fait peser sur les communautés, les sociétés de développement et les entreprises privées autochtones un fardeau extrêmement lourd qui a été difficile à contourner. Les données tirées des recherches présentées ici relèvent plusieurs enjeux, préoccupations et voies à suivre qu'il convient d'examiner dans le cadre des quatre recommandations suivantes de changement de politique adressées au gouvernement du Canada par le Conseil de développement économique des Autochtones dans son examen des conclusions des travaux de recherche :

- Continuer à accroître les investissements dans les institutions financières autochtones et à soutenir celles-ci.
- Déployer des efforts considérables pour renouveler la relation fiscale et faire de l'équité fiscale et des emprunts abordables une réalité pour les peuples et les communautés autochtones. Cela comprend la suppression des obstacles juridiques et réglementaires actuels à l'accès aux capitaux, ainsi que la recherche et le soutien de nouvelles options de prêt et de solutions de rechange en matière de prêts.
- Continuer à travailler avec les peuples, les nations et les gouvernements autochtones pour accroître les investissements dans les communautés et améliorer le climat d'investissement.
- Rehausser la pertinence, la qualité et la disponibilité de l'information pour les ménages, les entreprises et les communautés autochtones par un engagement en faveur de la transparence et de l'ouverture, et appuyer la recherche et la gouvernance des données assurées par les Autochtones.

Les communautés autochtones ont clairement indiqué qu'elles souhaitent faire partie du courant économique dominant et mettre fin à la dépendance à l'égard des programmes gouvernementaux. Malheureusement, ces communautés se heurtent depuis longtemps à des obstacles qui les tiennent à l'écart de l'économie moderne, en particulier en ce qui concerne l'accès aux capitaux. Les acteurs autochtones interviennent déjà à fond dans l'économie. Toutefois, c'est uniquement en débloquent les possibilités de l'ensemble des outils financiers que les communautés autochtones pourront véritablement s'engager dans la réconciliation économique. Le moment d'agir de façon concertée est arrivé.

Introduction

Canadians are now aware that First Nations, Inuit, and Métis communities are increasingly becoming strategic partners in major resource and energy business ventures. Two generations ago, energy projects such as the Lower Mattagami Project – Northern Ontario’s largest hydroelectric project in 50 years with its 438 MW of clean, renewable energy – were routinely built with hardly a thought given to the disruption of the Indigenous way of life, much less to their participation in employment, contracts or ownership. In 2015, the \$2.6 billion project was completed safely, on time and on budget with a 25 percent equity stake for the Moose Cree First Nation, a source of significant revenues for an estimated 90 years in addition to \$300 million in contracts awarded to Moose Cree-connected companies and employment for 250 First Nations and Métis workers during construction.

“Increased Indigenous economic participation in the economy will depend on Indigenous access to a diversified array of market capital instruments for business, infrastructure, and housing, ideally on the same terms as other Canadians.”

More ambitious ventures yet are on the planning board. Even as we write, two First Nations are considering not just participation but outright ownership of the Trans Mountain pipeline expansion project. Indigenous players are increasingly involved in businesses of all kinds, including wind energy, hydroelectricity, potash mining, fisheries, forestry, hotels and, even more recently, cannabis. Indigenous communities are demanding “economic reconciliation.” They expect that they will no longer be the poorest people on their own traditional territories and are finding the capital to make it happen.

The rationale for Indigenous engagement is simple: to produce sustainable and sizeable “own source” Indigenous government income to support effective autonomy and control over their future, and to participate in the Canadian economy on equal terms. The pursuit of “economic reconciliation” has become a top national priority, with estimates from Indigenous business associations arguing that the successful mobilization of Indigenous business potential could add billions of dollars to Canada’s GDP (Fiscal Realities Economists 2016).

National Chief of the Assembly of First Nations Perry Bellegarde often speaks of “closing the gap” between Indigenous and non-Indigenous communities as being central to Indigenous reconciliation.

Bellegarde once said in an interview: “This gap I identified—sixth vs. 63rd gap—Canada’s up here as sixth in the United Nations Human Development Index. Apply the same to First Nations people, we’re 63rd. This is the gap that needs to be closed. That’s why we need long-term sustainable investments in water, in childcare, in health. I will always be focused on that” (Jolson Lim 2018).

Indigenous economies have deep historical roots stretching back for thousands of years. They were crucial to the long and successful history of the Canadian fur trade. But they were pushed to the margins through government interference, discrimination, and the rapid expansion of the agricultural, industrial, and resource sectors. However, Indigenous business activity has expanded dramatically through the first two decades of the 21st century building on solid access to capital foundations laid two generations ago by a network of grass-root Indigenous-owned and managed financial institutions. Some of these institutions are regulated, such as the Quebec network of *Indigenous Caisse Populaires* with assets in the \$730 million range (the first established in Wendake 50 years ago), the national network of unregulated

funds established in the mid-1980s with over \$2.5 billion in loans to their credit, and the dozen or so revolving housing loan funds with assets in the \$100M range, the first ones dating back to the late 1960s.

Over the last 20 years, this movement was further accelerated by the liberating effects of modern treaties; by far-reaching *Indian Act* opting-out legislation that improved Indigenous control over lands, resources and capital; by a series of transformative Supreme Court of Canada decisions; and by the establishment of regional, tribal council and community-owned development corporations with mandates to take advantage of economic participation opportunities. But even so, too many Indigenous communities are still left on the outside looking in at the mainstream Canadian economy.

Increased Indigenous economic participation in the economy requires Indigenous access to a diversified array of market capital instruments for business, infrastructure, and housing, ideally on the same terms as other Canadians. The weight of history, the regulatory limitations of the *Indian Act* and other government policies, combined with the fragmentation of the population and, until recently, the lack of strong national and regional institutions capable of generating a positive investment climate, has resulted in limited access to sources of market capital for public and private Indigenous corporations and for the rapidly growing number of small Indigenous entrepreneurs.

Despite these challenges, the authors' research on Indigenous access to capital from 1975 to 2003, followed by an update to 2013, shows considerable progress. Indeed, the level of capital accessed and at work supporting Indigenous business activity more than doubled between 2003 and 2013 alone. This, by itself, is a development of seminal importance. More importantly, the research shows that for the first time in Canadian history, conventional market sources of capital have overtaken government transfers as the main source of Indigenous economic development capital. This is even more remarkable for having been achieved during a decade marked by the 2008 financial crisis and the subsequent recession. It provides further proof, if any were needed, of the entrepreneurial vitality of Indigenous Canada and the utility of the market economy as a major means of addressing Indigenous aspirations.

“The level of capital accessed and at work supporting Indigenous businesses activity more than doubled between 2003 and 2013.”

We will attempt here to summarize key findings and recommendations of this research (Waterstone Strategies and ATC Innovators 2017), with supplementary illustrations of activity and opportunities since 2013, and with references to policy implications of the findings published by the National Indigenous Economic Development Board (National Aboriginal Economic Development Board 2017).

The objective of the authors' research was to estimate the type and level of capital accessed by Indigenous businesses relative to what would be needed to fuel an Indigenous economy operating at the same level as the Canadian economy. Technical difficulties in capturing Métis, non-status and off-reserve Indigenous economic investment activity forced the authors to limit research to First Nation and Inuit access to capital. The research rests on data sets built from publicly available documentation of both market and government sources between 1975 and 2013, completed by estimates based on interviews with leading Indigenous businesses, bankers, and practitioners. The findings quantify the breadth and scope of progress on access to capital since 1975 and confirm the historic “coming of age” of Indigenous capital. But the research also points to systemic barriers and fragilities that urgently need to be addressed in order to meet Indigenous needs as they continue to press for broadly based economic reconciliation.

Sources of capital documented by the research are broken down into three categories:

- Market capital, the main and standard source of business finance;
- Assisted market capital, incentives and protection mechanisms that extend the reach of market sources beyond conventional risk-return limits; and
- Private and government sources of non-market or concessionary finance in support of early and late economic enablers. Early enablers include such initiatives as skills training, community economic development support, or seed capital for early start-ups that focus on addressing the preconditions for market-supported economic activity. Late enablers include sectoral assistance, support for information technology and financial expertise, research and development, emerging market development, and economic infrastructure investments. Both early and late enablers focus on providing support for business growth.

Market Sources of Capital

It is important to understand the scale of expansion in this area. Market capital mobilized to support business and economic development in Indigenous communities grew from \$2.8 billion to \$5.9 billion (in constant 2013 dollars) between 2003 and 2013. This represents an increase of 111.6 percent, or 2.5 times the rate of the increase of capital at work in Canada during the same period. Clearly, Canadian financial markets have adjusted to the rapid expansion of Indigenous business.

FIGURE 1: DOUBLING OF CAPITAL AMONG FIRST NATIONS AND INUIT



Source: Waterstone Strategies and ATC Innovators 2017.

This improvement in access to capital extends to loans, venture capital, and equity. While gains in loans and equity were impressive – more than doubling in each case – the growth in access to venture capital was even greater. Starting from an admittedly small base (\$3 million), Indigenous businesses nonetheless secured a 10-fold increase in the high-risk venture capital support. For long-term observers of Indigenous business development, this is a major advance from some 30 to 40 years ago when there was little funding available beyond government loans and grants, typically secured after complex, time-consuming, and intensely bureaucratic application processes.

FIGURE 2: TYPE OF CAPITAL AT WORK ACCESSED BY INDIGENOUS COMMUNITIES

Year	Loans	Venture Capital	Equity	Total (in 2013\$)
2013	\$3 390 M	\$30 M	\$2 444 M	\$5 864 M
2003	\$1 579 M	\$3 M	\$1 189 M	\$2 771 M
				Increase: 111.6%

Source: Waterstone Strategies and ATC Innovators 2017.

There has also been a fundamental transition in the source of funding available to Indigenous peoples. The shift was dramatic and impressive, with market capital becoming increasingly prominent.

In 1993, market capital accounted for 25.2 percent of all the capital disbursed to Indigenous firms. That grew to 39.4 percent 10 years later, passed the 50 percent threshold in 2012, and grew further to 53.8 percent in 2013. There remains substantial room for growth. For the Canadian economy 84.2 percent of business funding came through market capital in 2013. Government-assisted market capital grew slightly in proportion between 2003 and 2013, rising from 8.5 percent to 10.7 percent. Grants and contributions, the long-familiar and less effective funding sources, plunged from 52.1 percent to 35.5 percent. All indications are that these are steady, long-term trends.

FIGURE 3: TYPE OF CAPITAL ACCESSED BY INDIGENOUS COMMUNITIES



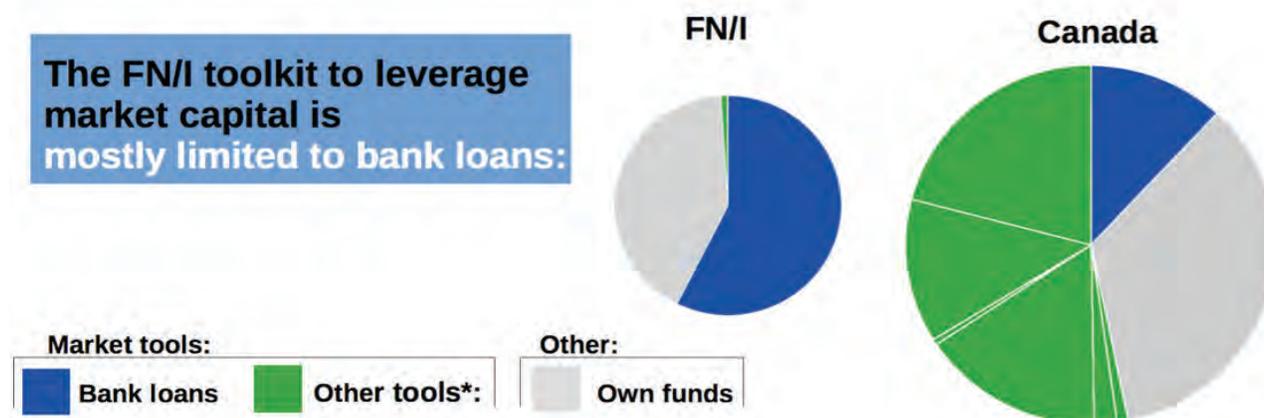
Source: Waterstone Strategies and ATC Innovators 2017.

This improvement in capital support did not mean that Indigenous businesses were moving quickly to replicate country-wide standards and distribution patterns. As of 2013, business finance capital at work in the Indigenous economy showed limited diversification in the sources of market capital accessed. Bank loans, jumping from \$1.6 billion in 2003 to \$3.4 billion in 2013, represent close to 60 percent of

the total capital raised by Indigenous business. Owner equity and retained earnings, doubling from \$1.2 billion to \$2.4 billion, accounted for just under 40 percent. In comparison, bank loans accounted for less than 10 percent of total capital used by Canadian businesses in 2013, with bonds, debentures, commercial paper, and other instruments representing well over 50 percent.

Put directly, Indigenous businesses have yet to secure access to the financial instruments used by Canadian corporations to raise half of the capital at work supporting our economy.

FIGURE 4: FINANCIAL TOOLS LEVERAGED BY INDIGENOUS COMMUNITIES VS. REST OF CANADA



* **Other tools include:** Foreign loans, Commercial paper, Banker acceptance, Venture capital, Bonds, Debentures, Securitization, Leasing, Equity IPO, Warrants, Accounts payable, etc.

Source: Waterstone Strategies and ATC Innovators 2017.

Indigenous businesses and organizations, however, understood the problems inherent in attempting to compete economically while being blocked from more than half of the sources of funding.

New instruments made their first appearance during the 2003–2013 period. Two examples illustrate the trend. The first is the Capital for Aboriginal Prosperity and Entrepreneurship (CAPE) Fund, a \$50 million private-sector investment fund, an initiative of former Prime Minister Paul Martin. Martin’s initiative had the participation of 21 of Canada’s leading companies, individuals, and US-based foundations. The second is the Aboriginal Savings Corporation of Canada (ABSCAN). From 2005 to 2013, ABSCAN raised \$22.5 million with 18 private bond issues subscribed by 130 Indigenous members from eight nations and three institutions and re-invested proceeds in Indigenous housing and related economic activities: 78 loans in total, with no losses and no arrears.

These innovations in financing pointed the way for the first large-scale private and public Indigenous bond issues in 2014. The first was the River Cree Resort and Casino in Edmonton, with a successful \$200 million cross border B-rated bond issue. The second, a \$90 million bond issue by the First Nations Finance Authority (FNFA), was released in 2014 with an A2 rating from Moody’s and an A+ rating from Standard and Poor’s. The FNFA enables individual First Nation governments with First Nations Financial Management Board certification to pool their borrowing needs for infrastructure and community development. As of 2019, the FNFA has raised over \$600 million on mainstream financial markets.

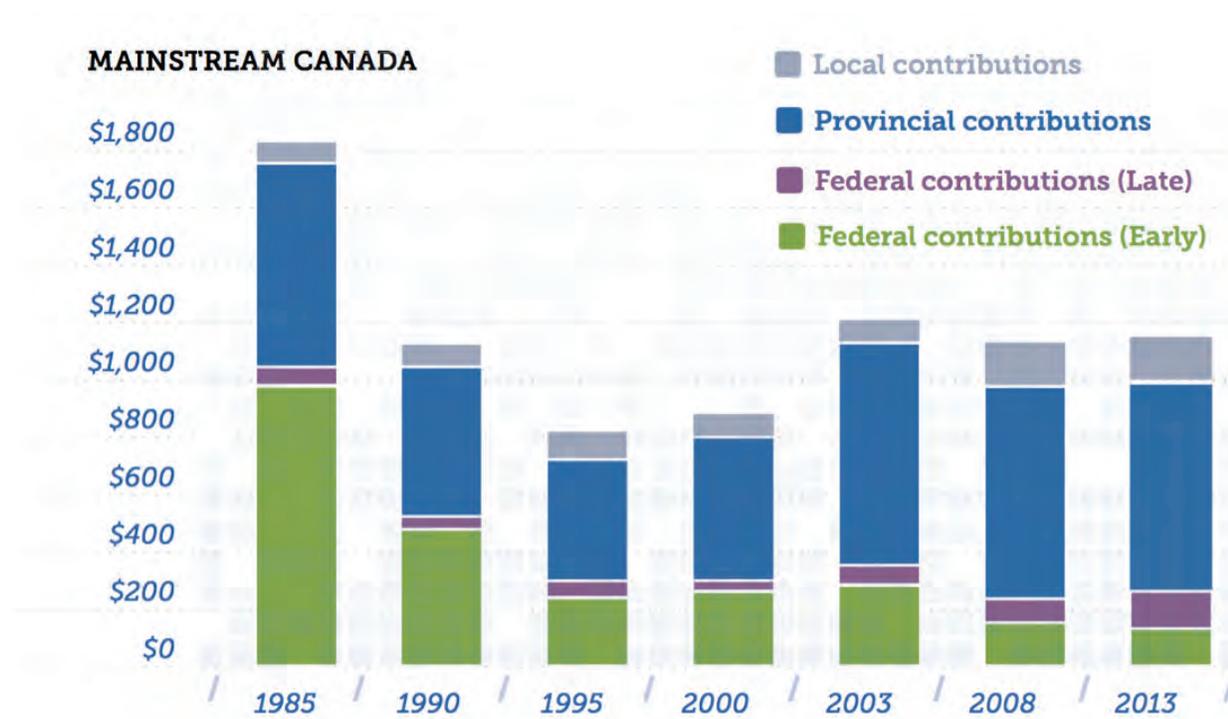
This trend continues with the largest single private Indigenous bond issue so far – used to acquire a 49 percent stake in Thebacha LP from Suncor Oil Sands for the First Nations East Tank Farm LP – successfully raising \$545.25 million in November 2017 (on the force of -/BBB (high)/Baa1 S&P/DBRS/ Moody’s ratings).

Assisted Market and Non-Market Sources of Finance

For several decades, Indigenous communities and businesses relied almost exclusively on the government of Canada funding for their commercial ventures, a clear indication that the rest of the Canadian business community was reluctant to invest in their enterprises. Government had, of course, long wrestled with questions about how best to incentivize and promote commercial development, with its related employment and wealth-creation benefits. From the years of massive government subsidies for railway development and the erection of tariff walls to protect nascent Canadian industries in the post-Confederation period, governments have faced substantial business and political demands for greater engagement with economic promotion and regional economic expansion.

On a national scale, the data on non-market capital shows some distinct trends. Canadian government involvement in these aspects of the economy fell dramatically from the mid-1980s to the 2010s. This was due, in large measure, to the less interventionist approach of the Progressive Conservative government of Prime Minister Brian Mulroney and, later in the 20th century, the efforts of the Liberal Chrétien-Martin governments to restructure spending in the face of worrisome federal debts and deficits. Federal funding also shifted from early stage interventions to late enablers, reflecting growing government recognition of the nuances of business promotion in the globally competitive markets of the 21st century. Provincial and local contributions to non-market investment remained strong over this period, reflecting the intense pressures on local and regional governments to address the challenges and opportunities facing the industrial and resource sectors.

FIGURE 5: NON-MARKET CAPITAL: EARLY AND LATE ENABLERS
GOVERNMENT CONTRIBUTIONS PER CAPITA (2013\$)

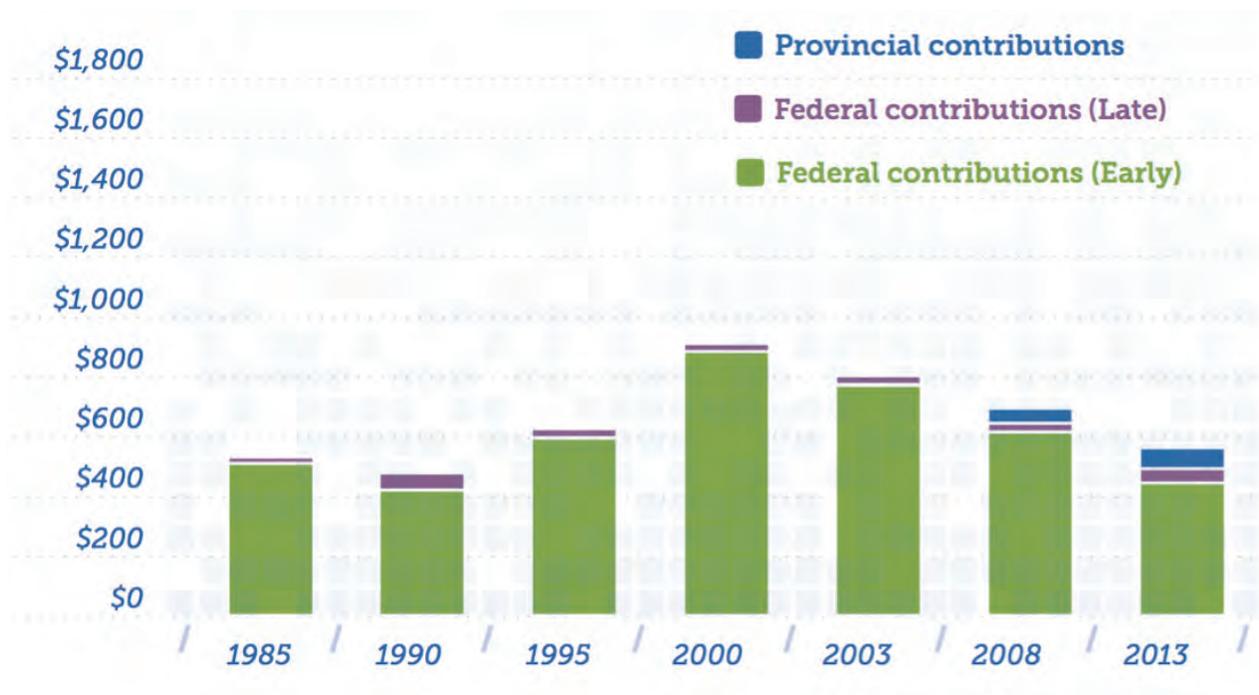


Source: Waterstone Strategies and ATC Innovators 2017.

In keeping with the continuing dissonance between Indigenous and general Canadian access to market capital, Indigenous capital accumulation has not followed these trends. Provincial programs, almost exclusively focused on late adopters, have been slow to address Indigenous concerns and needs, and outreach efforts have been minimal. As a result, as of 2013, the actual sums are very small, reflecting the oft-repeated provincial position that responsibility for Indigenous affairs rests with the government of Canada. This is rapidly changing. An outstanding example is Ontario's \$650 million Aboriginal Loan Guarantee program, launched in 2009, which provides provincial loan guarantees to enable First Nation or Métis participation in qualifying energy projects; as of 2019, \$235 million has been drawn down for nine projects, including the Lower Mattagami River project mentioned above.

Federal participation, still mainly focused on early enablers, remained somewhat stable but with significant increases that reflected the interests of Finance Minister and later Prime Minister Paul Martin in Indigenous businesses development. But, in a classic example of a case where an apparent increase represents an effective decrease in support, the rapid expansion of the overall, and, more importantly, of the better educated and prepared adult Indigenous population means that the government support for Indigenous businesses has in fact translated into a steadily declining per-capita level of assistance.

**FIGURE 6: TYPE OF CONTRIBUTIONS AMONG INDIGENOUS COMMUNITIES
GOVERNMENT CONTRIBUTIONS PER CAPITA (2013\$)**

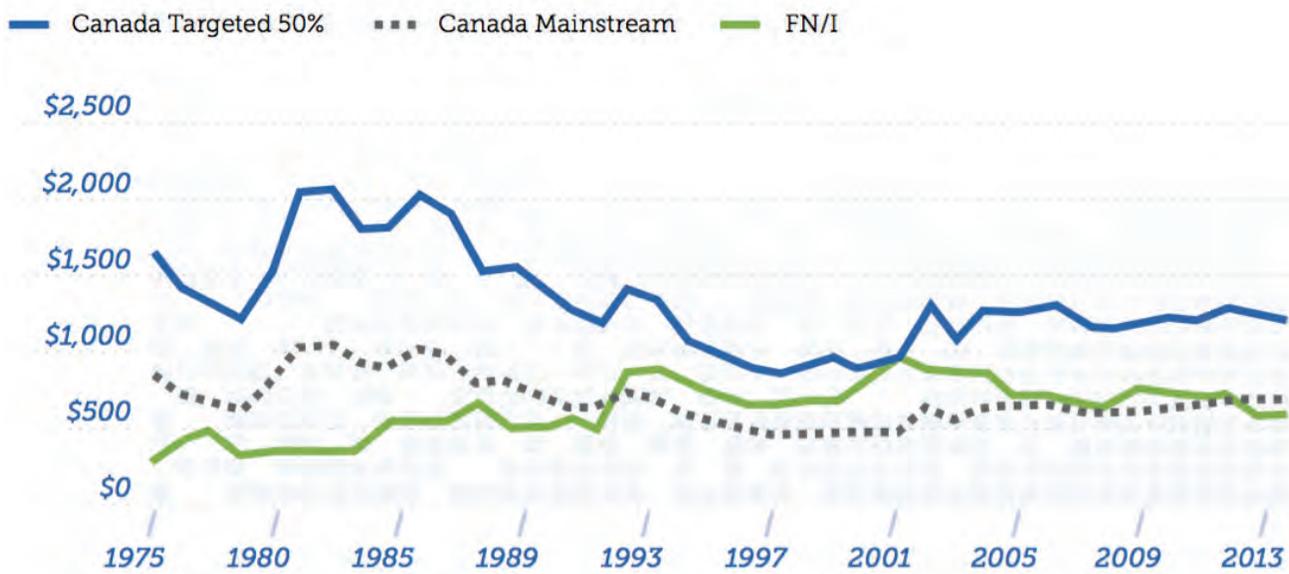


Source: Waterstone Strategies and ATC Innovators 2017.

Non-market investments are crucial parts of government efforts to address regional economic inequalities and to assist marginalized populations to improve their economic situation. Non-market investments are mainly directed at regions and demographics in need of additional economic stimuli. Assuming this target group represents half of the Canadian population and adjusting per capita disbursements accordingly, the research reveals that over the 40 years for which measurements are available, the Indigenous participation has been below the Canadian average every year save one (2001).

In 2013, support for Indigenous participation fell below the unadjusted Canadian average for the first time in two decades. This data stands in sharp contrast to standard impressions of the Canadian government’s “generous” support for Indigenous communities and businesses. In this area, as with the funding for Indigenous education, government support for Indigenous peoples through non-market capital investment has lagged behind the Canadian mainstream for close to half the time over the past 50 years.

FIGURE 7: PER CAPITA NON-MARKET CAPITAL GAP



Source: Waterstone Strategies and ATC Innovators 2017.

The provision of assisted market capital in Canada is mainly driven by direct and guaranteed loans, tax credits, and tax reductions. Few of these sources of finance are available to Indigenous communities and governments, in large part due to the unconventional lending environment created by the *Indian Act*.

Unlike for any other local government, the *Indian Act* created a regime that required Canada to sign-off on commercial land use decisions. This restricted land management and property regimes with its own pre-Torrens type title registry system – one that limits access and capacity to monetize natural resources. It protects land and property from seizure by non-Indians and enables local authorities to restrict entry and residency. Gray zones with respect to laws of general application in areas such as environmental protection further contribute to difficulty of assessing lending risk.

Together these elements limit the capacity to leverage assets and tighten access to loans and investment capital. *Indian Act* opting-out amendments, legislation and self-government regimes have in turn created

a variety of parallel, non-standard ways of conducting business that need to be understood on a case by case by lenders and investors.

This results in continued high transaction costs and limited benefit for investors to address the smaller sized loan requirements unless simple, risk-free, local government guarantees are provided. Unfortunately, only a minority of First Nations have the sufficient own-source revenues to do so. Mainstream guarantee programs for infrastructure, housing, agriculture and small business loans are either inapplicable on reserve land or require back-up guarantees from the Nation.

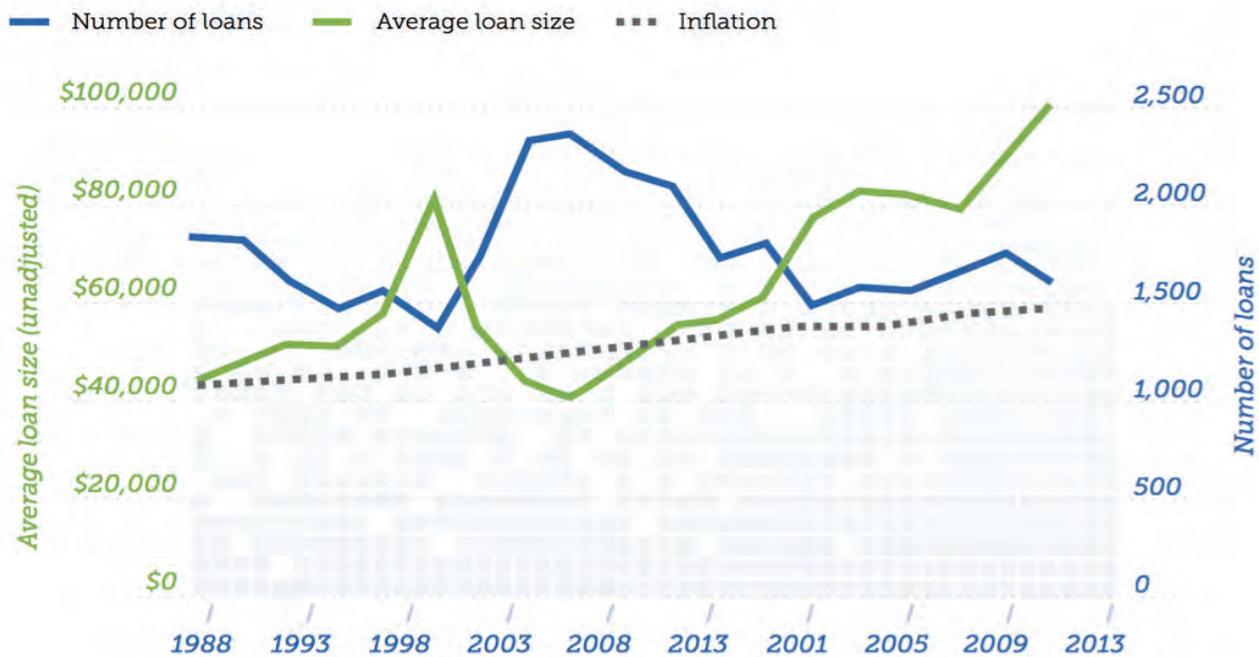
With these restrictions persisting for many Indigenous communities, the main source of assisted market finance for small, privately held Indigenous businesses, by far, is the microcredit, pre-market and developmental lending programs offered by the Aboriginal Financial Institution (AFI) network. These institutions, capitalized by the government of Canada, have been offering a combination of “market discipline” business loans and entrepreneurial support since the late 1980s and now manage Canada’s equity financing programs for small businesses. When AFIs commenced lending activity Canada’s Indian Economic Development Fund, offering similar loans, was running default rates in the 15 to 20 percent; AFIs began with loss rates under 5 percent collectively, with several of them reaching less than 1 percent within a few years, a spectacular success given the high risk of small start-up loans. AFI loans have been growing in volume since the mid-1980s. Investments reached well over \$110 million in annual disbursements in 2017 (which includes disbursement projections for 2018), by which time the AFI had processed over \$2.5 billion in total from a capital base of \$320 million principally deployed between 1985 and 1995.

Several larger regional AFIs are now fully loaned out and have maximized the leverage of their capital base; several have developed innovative financing solutions to address the growing sophistication of their client’s credit needs. Reduced income resulting from low interest rates and unchanged maximum loan size for over 20 years is slowly eroding the network’s capacity to address the full spectrum of Indigenous investment needs. As a result, many AFIs are evolving towards a “holding” pattern, with a smaller number of larger loans directed at maintaining the activities of a core group of stable clients.

In the United States a similar experience took place with the Community Development Financial Institution network. The CDFI system focused on underbanked demographic groups with limited access to capital. The network provided a combination of federal guarantees, tax credits, and incentives under the *Community Reinvestment Act* which created the momentum for investor participation. Some CDFIs with mandates and equity capital base comparable to that of AFIs, such as Craft 3 in Seattle, had grown close to tenfold by 2015. Working without similar instruments, the AFI network has not grown its capital base beyond its original capitalization levels, although it has been successful in keeping its funds in circulation. The network is currently exploring the prospects for a centralized Growth Fund to increase developmental loan capacity; groups of AFI are exploring, some testing, partnerships with market and social finance players to diversify their investment capacity. The \$755-million Social Finance Fund announced in the Fall Economic Statement could be an instrument to give the network badly needed second-growth infusion of capital. In the 2019 federal budget, the federal government earmarked \$100 million to an Indigenous Growth Fund to encourage investment in Indigenous-owned businesses.

On the mainstream instrument side, by 2013, regional economic development agencies, the Business Development Bank of Canada (BDC) and small business loan guarantee programs were reporting a scaling up of earlier Indigenous investments efforts; detailed breakdowns were not available at the time of the research but it is estimated that much of this activity was directed towards off-reserve ventures as a result of *Indian Act* constraints on lending. The restrictions of the *Indian Act* and the collective ownership of lands often complicates the ability and interest of lenders to provide financing. First Nations on reserves cannot pledge the land as collateral or have it seized for non-payment so lenders are reluctant to lend.

FIGURE 8: AFI RESPONSE CAPACITY EROSION



Source: Waterstone Strategies and ATC Innovators 2017.

Conclusions and Recommendations

The data presented in this review reflect patterns of Indigenous access to capital and business financing, and as such, point to significant improvements. Most importantly, it reveals that the Indigenous use of conventional market capital has overtaken government transfers for the first time in Canadian history.

However, it also reveals key issues, concerns, and ways forward. These differ in importance and relevance from community to community and region to region as a result of large variances in the circumstances of individual Indigenous groups and communities; nevertheless, they provide an overall sense of the challenges:

- The authors have identified a substantial and growing “Indigenous capital gap.” This gap illustrates the shortfall of financial options open to First Nations compared to the capital they could have raised if they had access to the full range of borrowing options available to other Canadians if they were participating on a proportional population basis. With the per capita projection admittedly a bit of a rough estimate, the authors’ calculations suggest an overall gap in the order of \$84.3 billion in 2013, up from \$50.5 billion in 2003. Imagine what prosperity and growth those funds could bring if they were available to support Indigenous ventures;
- While funding is available for private business start-up and early growth, and for large-scale community-owned ventures, there is a shortage of growth finance available for private business expansion, and as a result, small and local businesses tend to remain small and local, resulting in a growing “missing middle” in the Indigenous business spectrum;

- The own-source revenue (OSR) streams that back the growing access to capital are unevenly distributed (67 percent of OSR in 2013 accruing to the top 20 percent and 1 percent to the bottom 20 percent), leaving behind many communities;
- Decreasing government sources of assistance, largely unchanged in approach for more than a generation are not keeping up with population growth and fail to address the increased sophistication of capital needs;
- Synergies between housing, infrastructure and economic development are largely untapped; and
- Lending restrictions on reserves resulting from the *Indian Act* remain an issue despite a generation of innovations, from the Kahnawake trust deed arrangement developed a generation ago to the most recent tweaks to land designation and land codes authorities.

Among concerns raised by the findings:

- There is a lack of effort to modernize the AFI network despite its stellar impact and results;
- There is a lack of program authority flexibility to expand and replicate successful innovations from the field, with governments tending to address Indigenous needs by replicating current mainstream programs and policies rather than jointly-developed approaches built around the specific Indigenous needs and opportunities;
- Much of the capital accessed by the Indigenous community is directed at own-source income generating investments needed to generate the cash flows to compensate for the failure of government spending to keep up with the growing population and the increasing cost of health, safety, social and economic program delivery. Therefore, the focus on short-term cash needs limits the capacity to invest in employment and business development which would provide long-term benefits; and
- There is an increased access to capital driven by Indigenous government-owned businesses that is resulting in rapidly growing and largely unregulated indebtedness, which goes to Membertou Chief Terry Paul's point that there is a need to distinguish good debt, used for growth, from bad debt, which that can tie up First Nation income for years.

Many positive developments are pointing the way forward:

- An increase in regional revenue-sharing agreements that provide a broader distribution of wealth;
- Smarter forms of government credit enhancement and guarantee instruments are providing increased and better targeted leverage;
- Fiscal institutions are increasingly active in providing and certifying financial management standards; a modern oversight regime has been put into place for budgeting and borrowing against property taxation; these need to be strengthened and expanded to ensure orderly growth of local government debt in the absence of the safeguards provided by other orders of government;

- A growing number of *Indian Act* opting out legislations enable individual Indigenous communities to exercise increased powers over their lands and resource income, increasing their financial leverage;
- Social finance and economic reconciliation efforts are changing the financial landscape with investments into strategies to raise market finance for housing or for clean energy;
- Self-governing frameworks are coming of age and demonstrating how expanded powers can be used to support community betterment; and
- Innovative and far-reaching land tenure regimes are being explored and tested, corresponding to a wide variety of needs and priorities, from implementation of local *sui generis* title regimes designed to introduce homeownership to the proposed First Nation Property Ownership Act (FNPO).

— and the list could go on. There may be a shortage of support, but no shortage of creative solutions.

The authors' 2017 research paper and data sets, available on request to the authors, focused on data, but nevertheless offered a few recommendations to go forward; the 2017 National Indigenous Economic Development Board (NIEDB) overview of this research, available online (National Aboriginal Economic Development Board 2017), enriched these with the collective experience and wisdom of its members, extensive consultations over many years, and a wide range of policy and research work and should be consulted for details. Drawing on our own material and with the benefit of hindsight, here is an overview of possible ways forward, building on the four overarching recommendations of the NIEDB paper:

1. The Government of Canada should continue to expand investments in and support for Aboriginal Financial Institutions (AFIs).

After a generation of successful operation and their proven capacity to instill loan discipline, the AFI network is poised for a second growth, with increased loan and equity capital to respond to the rapidly evolving sophistication of borrower needs, with a broader and deeper response capacity. This will enable AFIs to act as economic catalysts, planners, and sources of sector expertise. It will also offer more sophisticated tools, such as loan syndication, credit enhancement-supported sectoral investment pools, enhanced network tools for co-lending, interest-rate buy-down to support affordable loans for “developmental plus” lending and, for those that are ready, support to evolve into financial intermediation with social and market sources of capital. An incentive program built on lessons learned from the CDFI experience in the US could provide them with the tools to partner with commercial lenders to open markets. The creation of a national investment pool for AFIs, with the critical mass to address larger loan requirements and afford in-house investment expertise, has been on priority short lists for a decade.

2. The Government of Canada makes a substantive effort to renew the fiscal relationship and to make fiscal fairness and affordable borrowing a reality for Indigenous peoples and communities. This includes addressing current legal and regulatory barriers to accessing capital, as well as exploring and supporting new and alternative lending options.

Outdated *Indian Act* restrictions remain a stumbling block despite decades of efforts to resolve issues through opting-out regimes. Land ownership titles, a critical tool to leverage the financial value of land, is one area in need of attention. This issue involves long-term consequences and may call for an array of different and evolving solutions. Enhanced access to community assets held in trust by government is another, with its delicate tradeoff between fiduciary protection and increased control over investments. Monetization of government contributions through the First Nations Finance Authority could accelerate the development of community, business and service delivery infrastructure. Incentives to increase commercial lender activity are crucial to strengthen business expansion and accelerate infrastructure investments. Sovereign guarantees should be explored as a transition strategy to direct lower cost capital for high priority investment – increased participation in employment creating sectors, for example.

3. Indigenous and Northern Affairs Canada (INAC) should continue to work with Indigenous peoples, nations and governments to expand investments in communities and to enhance the investment climate.

Future economic development programming should emulate the slow-design partnership approach that led to the creation of the Native Economic Development Program (NEDP) in the mid-1980s, with active participation of experienced Indigenous, economic and civil society leaders. They should be given the time and the resources to review and research best practices at home and abroad, and to consult widely. The core of the current AFI network, the initial 30 or so Aboriginal Capital Corporations, was one of the signal achievements of the NEDP.

Building on the synergies between business, infrastructure and housing needs is key. Housing finance is a priority with the growing backlog and the exodus of qualified people from communities for lack of housing options at home. Solutions that support the transition from uniform and subsidized community housing to a mix of community, social and private homeownership should be supported actively, especially those that are not contingent on local community guarantees. Such requirements are a liability that no other local order of government in Canada could shoulder alone and they result in individual access to housing being contingent on the financial health and fortune of their community. Intensified housing investments would create the necessary critical mass for employment and local enterprise development, in addition to reducing costs. Connectivity, financial literacy, and credit repair (and documentation) remain important areas to be addressed.

4. INAC should enhance the relevance, quality and availability of information to Indigenous households, businesses and communities through a commitment to transparency and openness, as well as supporting Indigenous-led research and data governance.

Documentation of the impact of fiscal institutions and self-government powers on access to capital would help guide future policy directions and prepare the way for post-*Indian Act* regimes.

About the Authors



Dominique Collin, PhD has more than 25 years of experience in First Nation access to capital issues including micro-credit, business financing, community banking, risk capital, housing and infrastructure financing, and First Nation government taxation. His focus has been on innovative financing solutions developed in partnership with First Nation institutions that integrate sustainability, social justice values, and financial viability. Dominique lives in a vibrant rural but multicultural community of “slow” innovators, social change thinkers and artists in the Eastern Townships of Quebec, with connections to similar communities in Canada and abroad.



Michael L. Rice was born and raised in Kahnawake and is a Kanien'keha:ka (Mohawk) of the Bear Clan. He is founder and past manager of the caisse populaire Kahnawake, the largest Indigenous credit union in North America with assets in excess of \$330 million. He has worked over 35 years as an access to capital and institutional development specialist in the areas of commercial, developmental lending, housing, venture capital and infrastructure financing and is currently self-employed operating under the name of ATC Innovators. He currently sits on the boards of the First Nations Venture Capital Partnership of Quebec and Indigenous Housing Solutions Inc. Mr. Rice holds an MBA from the Ivey School of Business, University of Western Ontario. He is married with two sons and resides in Kahnawake.

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Endnotes

- 1 Established in 1990, the National Aboriginal Economic Development Board is a Governor-in-Council appointed board mandated to provide strategic policy advice to the federal government on issues related to Indigenous economic development. Composed of First Nations, Inuit, and Métis business and community leaders from across Canada, the board helps governments respond to the unique needs and circumstances of Indigenous peoples in Canada. For information about the NAEDB, see <http://www.naedb-cndea.com>.
- 2 Métis and off-reserve First Nation access to capital could not be included in the research due to data and statistical challenges.
- 3 The Aboriginal Financial Institutions (AFI) network includes Aboriginal Capital Corporations (ACCs) and Community Future Development Corporations (CFDCs) serving a majority of Aboriginal populations and other business lending funds established by First Nations. AFIs mainly serve privately owned, generally unincorporated small- and medium-sized enterprises (SMEs).



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