

National Aboriginal Capital Corporations Association (NACCA)
Pre-budget Consultation
Submission to the House of Commons Standing Committee on Finance

Executive Summary

This submission has been prepared by the National Aboriginal Capital Corporations Association (www.NACCA.ca). It identifies recommendations for Budget 2018 to support growth in the Indigenous economy.

As a way to help Canadians and Canadian businesses be more productive and competitive while responding to the Government's mandate to support Indigenous Peoples and to promote economic reconciliation, NACCA would like to provide to the Government of Canada with a specific recommendation:

That the Federal Government invest an additional \$162M in the national network of Aboriginal Financial Institutions (AFIs) to support the delivery of developmental financing as well as related programs and support services to small and medium sized businesses owned by First Nation, Métis and Inuit people in Canada.

Preamble

NACCA was formed in 1996 by a collective of AFIs to serve a central coordinating and representative role for the AFI network. As part of this role, NACCA undertakes advocacy activities for the network, fosters partnerships and builds capacity both internally and beyond the network, and delivers the Aboriginal Entrepreneurship Program (AEP) to the AFIs under an agreement with Indigenous and Northern Affairs Canada.

NACCA's **vision** reflects a consistent thread from its founding to the future it envisages: "promoting thriving, prosperous, Aboriginal businesses with equitable access to capital and care."

Likewise, NACCA's **mission** reflects its constant purpose over the years: "To serve as the voice of Aboriginal Financial Institutions and as a national advocate for Aboriginal business development."

Investing in the Aboriginal Entrepreneur

Aboriginal entrepreneurship is growing – and diversifying. From 2006 to 2011, Aboriginal self-employment increased by 12.4 percent, making self-employed entrepreneurs just over 6 percent of the Aboriginal labor force. Beyond individual entrepreneurs are larger community-owned businesses, joint ventures, and various forms of social enterprise, which are growing in size and complexity. The vast majority of Aboriginal businesses can be classified as small, with fewer than 99 employees. Though most are small, the businesses play a crucial role in promoting employment in Aboriginal communities.

Community-led businesses are unique. Many incorporate public policy objectives and community economic development, promoting goals like economic self-sufficiency, control of traditional lands, and improvement of member well-being. Whatever their emphasis, these businesses are a testimony to Aboriginal economic empowerment.

In the coming decade, the Conference Board of Canada predicts that Aboriginal communities and businesses are poised to benefit from major project investments — totalling over \$342 billion in the natural resources sector alone. Yet the Conference Board adds a caution: “to have a fair chance of meeting these opportunities squarely, Aboriginal businesses must have appropriate financing tailored to their unique needs and realities”.

Enter the Aboriginal Financial Institutions. Aboriginal leaders created AFIs in the late 1980s and early 1990s with support from the Government of Canada. Their goal was to improve the delivery of small business capital and lending support services to Aboriginal people and communities. Since then, the AFI network has provided over 41,500 loans, totaling \$2.3 billion, to businesses owned by First Nation, Métis and Inuit people.

AFIs Role as Developmental Lenders

Aboriginal entrepreneurs face challenges accessing capital. This applies on and off-reserve, and across all heritage groups. This may explain, at least in part, why Aboriginal people control only 1.6% of small and medium-sized businesses — even though they represent 4% of the total Canadian population.

Barriers to access are varying and complex, including legal impediments under the Indian Act, community remoteness, lower personal savings, financial literacy rates and lack of credit history. Location is often an issue, where the major Canadian banks still have only a limited presence in Aboriginal communities. Collectively, these factors limit the willingness of mainstream financial institutions to provide Aboriginal entrepreneurs the capital they require to start, grow or acquire a new business.

AFIs specialize in developmental lending, a form of social financing tailored to the Aboriginal entrepreneurs and small- to medium-sized enterprises that conventional banks pass over. AFIs’ approach of supporting the viability of a business, taking a flexible stance on security requirements, and managing risk by building capacity has positioned them as risk management innovators.

AFI Performance

Successive federal government evaluations conclude that AFIs effectively support Aboriginal business performance, the economy, entrepreneurship, and access to other funding sources:

- aggregate loan portfolio of \$329 million;
- AFIs are resilient, having recycled each dollar the federal government invested in loan capital over 8 times;
- AFIs typically make over \$100 million in loans per year, supporting close to 500 Aboriginal-led start-ups and over 750 existing businesses;
- since inception, AFIs have made over 41,500 loans totaling \$2.3 billion in support of Aboriginal business development;
- AFI lending created or maintained 4,432 jobs in 2015/16 alone; and
- repayment efficiency rate is 94.8% across all AFIs.

Further, analysis conducted by the Conference Board of Canada indicates:

- for every dollar AFIs lend to clients for capital investment, up to \$3.6 is added to GDP; and
- with a labour income multiplier of 0.66, the labour income share of the contribution to GDP in 2015/16 was \$257.8 million.

The Current Challenge

Today, the opportunities available to Aboriginal entrepreneurs differ significantly from when the AFI program began. The current Aboriginal market has matured to accommodate not only simple businesses such as gas bars and convenience stores, but also larger, more complex ventures – such entities as franchise food chains, high tech start-ups, and renewable energy projects, among others.

Aboriginal entrepreneurs continue to develop their local communities under changing circumstances. Reflecting the increasing size and sophistication of the Aboriginal business market, both the size and volume of loan applications have grown as well.

AFIs are now challenged to accommodate this growth in demand without having adequate access to new capital to serve it. Inflation further erodes the impacts of investments being made by the network - one million dollars of capitalization provided in 1986 delivers only \$519,275 in equivalent support today. In the past, Indigenous and Northern Affairs Canada addressed the issue of capital erosion by undertaking periodic recapitalization exercises. However, these were ad hoc at best and ended some time ago.

If left unchecked, undercapitalized AFIs may be forced to move away from developmental lending in order to preserve their capital base and ensure their continued survival. In order to respond to the growing demands and needs of complex and diversified Indigenous businesses, investment in the Aboriginal Financial Institutions network is increasingly necessary. To ensure they can sustain their operations, some AFIs have become more cautious, taking on less risky projects than in the past. Without adequate capital, a low-risk investment strategy may be prudent, yet such a strategy also comes at a cost. Inadequate capitalization means fewer and smaller loans from AFIs to Aboriginal entrepreneurs.

For the last several years, the Canadian Chamber of Commerce has published an annual list of the Top 10 Barriers to Canadian Competitiveness. That document listed factors that have prevented Canada's economy from achieving its full potential and set out their recommendations for change. For 2017, they released a different document, Ten Ways to Build a Canada that Wins. Instead of focusing on barriers, they outlined 10 ways to improve our economic success, along with specific recommendations to advocate throughout the year – one of these calls on the government to “Assure Better Access to Capital for Indigenous Entrepreneurs”.

The National Chief and the Assembly of First Nations have also called on the government to ensure that AFIs are provided with the resources needed, including debt and equity capital, to continue supporting the small and medium-sized business growth and expansion that provides the jobs that play a key role in building healthy communities and a thriving private sector.

Undercapitalization affects the individual entrepreneur or community that would have received a loan. It affects the jobs and economic growth that would have occurred within the region. It affects the Aboriginal economy within the region, and ultimately – through the foregone contribution to the GDP – the Canadian economy as well.

The work is far from finished. A recent report by the National Aboriginal Economic Development Board, a Governor in Council appointed board mandated to provide strategic policy advice to the federal government on Indigenous economic development, indicates just how far Canada has to go to realize the \$27.7 billion increase in GDP that it predicts would result from economic parity between Aboriginal people and the non-Aboriginal population. Self-determination and reconciliation through Aboriginal prosperity are priorities that the AFI network shares with the federal government.

Responding to the Challenge

To meet the growing demand and diversity of its clients, the network has identified securing new loan capital and program funding as a key priority.

At the recommendation of Indigenous and Northern Affairs Canada, NACCA commissioned a study to determine the current capital needs of the AFI network. The report noted that across the network, 50% of AFIs identified the need for more capital funds, with an acute need being identified in many cases. The report concluded that an investment of \$162 million is needed over the next 5 years. Of this total, \$67 million is required for the AFI loan portfolio. In addition to the loan capital required to foster growth, incremental funding of \$95 million is required to support the continued delivery of NACCA's Aboriginal Entrepreneurship Program (AEP), which supports contribution funding, capacity development in the network as well as costs associated with developmental lending.

It is anticipated that this investment will increase lending by \$113 million over 5 years; create or maintain an additional 4,900 jobs; and add an additional \$241 million to Canada's GDP.

In its July 2017 report entitled, Improving Access to Capital for Indigenous Peoples in Canada, the National Aboriginal Economic Development Board (NAEDB) recommended that the government expand investments in and support for AFIs. It concludes that AFIs must be supported to broaden their services, including business readiness training, developmental lending, and business aftercare support.

Recommendation

That the Federal Government invest an additional \$162M in the national network of Aboriginal Financial Institutions (AFIs) to support the delivery of developmental financing as well as related programs and support services to small and medium sized businesses owned by First Nation, Métis and Inuit people in Canada.