

Make Loan Capitalization of Aboriginal Financial Institutions an Annual Federal Budget Item

Issue

Assuring better access to capital for Indigenous entrepreneurs is one of the Canadian Chamber's *Ten Ways to Build a Canada that Wins* in 2017. In the cut and thrust of global competition, Canada cannot afford to have anyone lacking access to the tools to benefit from economic development. It is one of the building blocks of reconciliation; one of the federal government's top priorities.

Whether as proponents or as partners and service providers to proponents, Indigenous entrepreneurs need capital to invest in equipment, training and other tools that can translate the benefits of short-to-medium-term projects into the long-term benefits of jobs and wealth for communities. According to the Canadian Executive Services Organization (CESO), which provides free professional services (through its pool of retirees) to Indigenous communities in Canada, the number of Aboriginal SMEs is growing at 6 times the rates of non-Aboriginal small businesses. The Canadian Council for Aboriginal Business's 2016 survey found that more than one-third of Aboriginal businesses create employment for others.¹

Background

Aboriginal Financial Institutions (AFIs) were created in the late 1980s and 90s - and funded by the federal government - to provide capital to small businesses and lending support. AFIs specialize in developmental lending, which they conduct with more flexible security requirements, a higher risk tolerance than other lenders as well as including community social and environmental goals in their decision making.

Since their creation, Canada's 50+ AFIs have provided more than 41,000 loans - totaling \$2.3 billion - to First Nations, Métis and Inuit businesses. According to the National Aboriginal Capital Corporations Association, each dollar loaned returns up to \$3.60 in contribution to Canada's GDP.² In 2015-16, capital provided to Indigenous businesses by AFIs led to the creation of nearly 4500 jobs, \$257.8 million in labour income and \$264.3 million to communities throughout Canada.³

Like all entrepreneurs, Indigenous business people rely upon various sources of financing, including private sector lenders, cooperatives and others federal programs.⁴ AFIs are an essential component of this mix given they are often staffed by Aboriginal peoples and located in the regions where the businesses operate.

Despite AFIs' demonstrated success, the federal government has not recapitalized them since 2011. Over the preceding decade, the federal government provided an average of \$4.1 million a year in capital contributions to the AFI network. The lack of new loan capital has constrained AFIs' ability to provide capital to Indigenous entrepreneurs⁵

In its 2016 budget, the federal government committed to lift the 2 per cent cap on programs delivered by Indigenous and Northern Affairs Canada that had been in place since the 1990s. It also announced \$8.4 billion (over 5 years) in funding to improve Indigenous peoples' socio-economic conditions. The federal government added \$3.4 billion (over 5 years) to this amount in the 2017 budget. None of this additional funding was directed toward loan capitalization of AFIs or Indigenous economic development more broadly.

¹ Promise and Prosperity: 2016 Aboriginal Business Survey, Canadian Council for Aboriginal Business

² Opportunities to improve the financial ecosystem for Aboriginal entrepreneurs and SMEs in Canada, Conference Board of Canada, 2017

³ National Aboriginal Capital Corporations Investment Prospectus, Investing in the Strengths of Aboriginal Financial Institutions, 2017

⁴ Other federally-funded programs include the Aboriginal Business Financing Program, Aboriginal Capacity Development Program, Interest Rate Buy-Down (IRB), Aboriginal Developmental Lending Assistance (ADLA) and Enhanced Access Loan Fund as well as the Business Development Bank of Canada's Aboriginal Banking Unit. There is also operational support provided through some federal regional economic development agencies.

⁵ Promise and Prosperity: 2016 Aboriginal Business Survey, Canadian Council for Aboriginal Business

Given the federal government's commitment to invest in Indigenous peoples includes their economic prospects, there is an argument for AFIs to receive some of this funding. While there is no denying the need to address the critical infrastructure and social services gaps many Indigenous communities face, providing AFIs with reliable annual loan capitalization would make a real difference to long-term economic prosperity of those communities.

Recommendations

That the federal government:

1. Restore loan capitalization of Aboriginal Financial Institutions (AFIs) in the 2018-19 federal budget.
2. Make loan capitalization of AFIs an annual budget item thereafter with annual increases of no less than the rate of inflation.