



# The Aboriginal Financial Institutions Network

Investing in the Strengths of  
Aboriginal Entrepreneurs

## Introducing Aboriginal Financial Institutions

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Canada's Aboriginal economy is on the rise. Once economically marginalized, Aboriginal people are transforming their local economies – and impacting the broader Canadian economy as well. As a young, fast-growing population, Aboriginal people are becoming entrepreneurs at unprecedented rates. And they are succeeding. For example, a 2016 survey by the Canadian Council for Aboriginal Business found strong growth in the proportion of businesses reporting a net profit and increased revenue over the past year.<sup>1</sup>

The burgeoning success of Aboriginal entrepreneurs is now well known. Less known is the success of the Aboriginal-led lending institutions that back them – the same institutions that have supported the visions, and invested in the strengths, of Aboriginal entrepreneurs over the past 25 years.

The National Aboriginal Capital Corporations Association (NACCA) is a Canada-wide network of Aboriginal Financial Institutions (AFIs) dedicated to stimulating economic growth for First Nations, Métis and Inuit people by promoting and under-

writing Aboriginal business development. Collectively, AFIs have generated over \$2.3 billion in loans since their establishment twenty-five years ago.

The success of the AFI network is a story not yet told.

That story begins with the Aboriginal entrepreneur, whose particular needs and realities the AFIs were created to meet. It then moves to the AFI network, whose innovative approach and devolved governance model yield concrete and scalable economic impacts. It indicates how, without adequate capital, the network is challenged to meet the greater lending demands of Aboriginal businesses. The story concludes with an outline of four strategic priorities seeking to take the network to new heights of performance.

The work of AFIs supports 'reconcile-action,' or reconciliation of the best, empowering kind. Loan by loan, with 41,500 to date, AFIs help build Aboriginal prosperity.

*This is the story of the AFI network.*

## Investing in the Aboriginal Entrepreneur

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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 labour force.<sup>2</sup> 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. For example, in its 2016 Aboriginal Business Survey, the Canadian Council for Aboriginal Business found that over one in three Aboriginal businesses (36 percent) create employment for others.<sup>3</sup>

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. Some reinvest in their traditional cultures and languages. 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.<sup>4</sup> 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.”<sup>5</sup>

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.

As the national association of AFIs, NACCA provides programs and services to member AFIs. These include capacity support, subsidies to developmental loans, interest rate buy-down on capital accessed through private lenders, and equity programming.

*“Aboriginal businesses must have appropriate financing tailored to their unique needs and realities.”*

## Tailored to the Aboriginal Entrepreneur

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Aboriginal entrepreneurs face challenges accessing capital. This applies historically and now, on- and off-reserve, and across all heritage groups. In its 2016 survey, the Canadian Council for Aboriginal Business found that access to equity or debt capital remains a challenge for about one third of Aboriginal business owners across the country.<sup>6</sup> 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.<sup>7</sup>

Barriers to access are varying and complex. They include such things as community remoteness, legal impediments under the *Indian Act*, and lower personal savings, lack of a credit history and financial literacy rates. 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 debt or equity capital they require to start, grow or acquire a new business.<sup>8</sup>

*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.*

## Experts in Developmental Lending

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AFIs specialize in developmental financing tailored to the Aboriginal entrepreneurs and small- to medium-sized enterprises that conventional banks often 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. They have a deep reach to the communities they serve. In a business landscape dominated by sole proprietors, AFIs also lend to more complex,

community-based business structures.<sup>9</sup> Many share with the communities a broader perspective on value – as not simply net worth and returns to shareholders, but serving social and environmental objectives as well.

On the continuum of lenders providing small business loans to Aboriginal people, AFIs have developed a know-how that other lenders do not share.

## From Coast to Coast to Coast

The network has a truly national reach, with 58 AFIs located across each province and territory of Canada.

YK	NWT	NU	BC	AB	SK	ON	PQ	AC	MB	TOTAL
1	6	5	10	5	6	8	5	1	11	58



A list of the 58 AFIs appears as Appendix A. They serve Inuit, Métis, and First Nation heritage groups in a range of geographies: from northern and remote, to rural, to urban lending contexts.

## Performance of AFI Investments

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AFI capital investments make a difference. In terms of both network performance and real world impacts, the numbers speak for themselves.

### Network Performance

Over the years, the AFI network has maintained a viable financial ecosystem, assisted by federal equity programming that has helped lift client equity and absorb a meaningful proportion of AFIs' risk exposure. Loan capital provided by governments has brought returns many times over. Since founded, AFIs have performed well by several metrics:

*At the end of fiscal 2015/16 AFIs' combined loan portfolio stood at \$329 million, bringing the cumulative total of loans advanced since they were established to \$2.3 billion.*

*Over 25 years AFIs have advanced \$8.25 in loans for each dollar the federal government invested in loan capital.*

*AFIs typically make over \$100 million in loans per year, supporting close to 500 Aboriginal-led start-ups and over 750 existing businesses.*

Successive federal government evaluations conclude that AFIs effectively support Aboriginal business performance, the economy, entrepreneurship, and access to other funding sources.<sup>10</sup> **As a sign of its confidence in the network, Indigenous and Northern Affairs Canada transferred its Aboriginal Business Financing Program to NACCA in 2014. Together with 15 AFI partners, NACCA provides an innovative, effective program delivery platform with proven institutional capacity.**

## Economic Footprint

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The Conference Board of Canada analyzed NACCA data sets from its Aboriginal Business Financing Program (ABFP) for the period from 2013 to 2015. Using the ABFP data as a sample to assess the economic impact of all AFI lending, the Conference Board analysis identified multipliers that can be applied to NACCA's data for 2015/16:

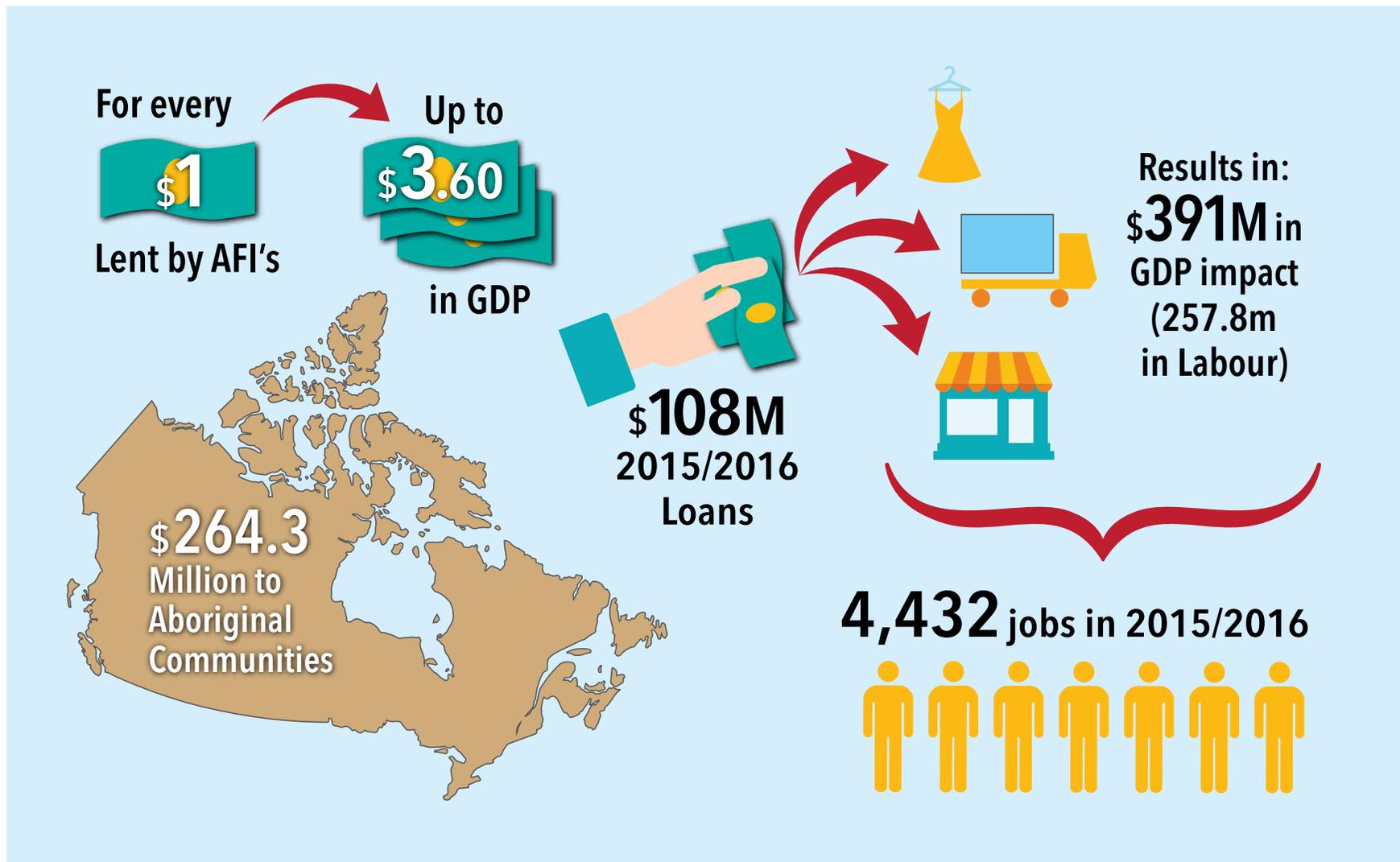
- **Contribution to GDP:** For every dollar AFIs lend to clients for capital investment, up to \$3.6 is added to GDP thanks to matching funds associated with other lenders, client equity, non-repayable government contributions as well as the indirect and induced impacts triggered by business investments. In 2015/16, AFIs advanced \$108.5 million in loans, contributing some \$391 million in GDP.<sup>11</sup>
- **Labour income created:** With a labour income multiplier of 0.66, the labour income share of the contribution to GDP in 2015/16 was \$257.8 million.

NACCA data highlight some further key contributions of AFIs in 2015/16:

- AFI loans entailed a direct economic impact of \$264.3 million to Aboriginal economies across the country.
- AFI lending created or maintained 4,432 jobs in 2015/16 alone.

Less tangible than the economic footprint has been the contribution of AFIs to the social development of First Nations, Métis, and Inuit communities. The AFIs' "social footprint" is not easy to quantify – but it is certainly bound up with the broader understanding of economic value that AFIs share with the entrepreneurs their loans support.

## Economic Impact



## The Current Challenge

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AFIs have always been builders, bringing professional lending practices to bear on business development in Aboriginal communities. Yet today, the lived experience and opportunities of 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. To ensure they can sustain their operations, some AFIs have become more cautious, taking on less risky projects than in the past. Many have opted to follow a low-risk investment strategy rather than financing higher risk projects.

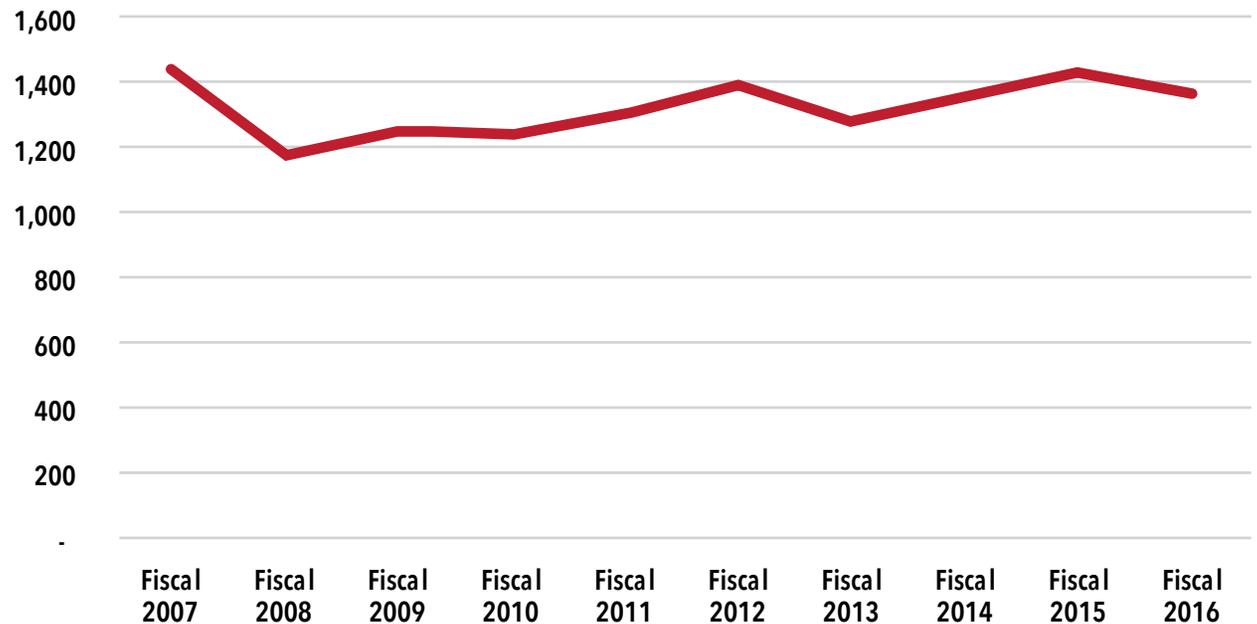
## Impacts of Inadequate Capitalization

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. Ultimately, it diminishes the impact of these longstanding institutions.

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This is borne out by the numbers. In 2010, CCAB reported that 52 percent of business owners cited Aboriginal lending agencies and capital corporations as important sources of financing. In 2016, that proportion had dropped to 42 percent<sup>12</sup>. NACCA's internal data tells the same story. Since 2011, new loans to start-ups and existing businesses have stagnated at about 1,200 to 1,400 per year.

### # of New Loans Advanced Annually



Inadequate capitalization has real-world impacts. For every Aboriginal developmental loan application that goes unmet due to a conservative calculation of risk, an opportunity is lost. Undercapitalization affects the individual entrepreneur or community that might have

received a loan. It affects the jobs and economic growth that might 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.

## Developmental Lending at Risk

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Developmental lending is a high risk, high cost activity. With an historical 5.2 percent loan loss rate, AFIs are prudent risk managers. Some AFIs have loaned out much of their available capital and must be cautious with the capital they have remaining. While risk aversion may preserve the sustainability of AFIs, it detracts from their effectiveness as developmental lenders. A number may have shifted their focus from developmental lending.

They would do it with regret: promoting Aboriginal community and economic development is why AFIs were created in the first place. Moreover, the developmental work is far from finished. A recent report by the National Aboriginal Economic Development Board 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. In addition, a recent study on First Nations and Inuit access to capital highlights that SMEs in those communities “continue to be under-leveraged”, pointing to the unmet demand for loan capital.<sup>13</sup>

Self-determination and reconciliation through Aboriginal prosperity are priorities that the AFI network shares with the federal government. Themselves Aboriginal-controlled, AFIs have been fully invested in these two priorities for decades. In absence of new capital to support their lending work, however, it is not reasonable to expect them to sustain their focus on developmental lending and support the growth in the Aboriginal economy.

*In absence of continued government funding and investment, it is not reasonable to expect AFIs to sustain themselves through developmental lending.*

## Responding to the Challenge

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The AFIs can stretch a dollar, as their loan recovery and leveraging track records show. But, even in the short term, the network requires new capital to sustain its developmental lending, including larger, more complex loans.

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

The priority is one of four broad ones identified in the Strategic Plan for NACCA, the national association of AFIs. The plan seeks both to honour the crucial building work that AFIs perform every day, and to point the way to new heights that the network and its clients can attain.

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.

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## Looking to the Future: A Mixed Landscape

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As in the past, the network's future success will depend on its ability to navigate challenges and opportunities in the broader landscape. That landscape is mixed, with cause for optimism in some areas and uncertainty in others.

The growing diversity of the Aboriginal lending landscape was mentioned above. Besides featuring larger business ventures, that landscape also includes a fast-growing population of Aboriginal youth. AFIs will wish to reach and serve these future entrepreneurs with services and formats they find useful – likely digitized and online.

Access to capital remains a challenge for Aboriginal women in particular. Such initiatives as the recently announced joint US-Canada council to support advancement of women entrepreneurs provide a renewed occasion to promote the economic inclusion of Aboriginal women entrepreneurs through tailored services.

On the whole, the future is bright for realizing the economic dimension of Indigenous rights. The federal government has made reconciliation and advancement of Indigenous self-determination high priorities on its agenda. Though it is not yet clear it will be in a position to deliver on its commitments, federal departments are making unprecedented investments in housing, infrastructure, education and skills training for Indigenous peoples. AFIs across the spectrum may seek to diversify into these areas.

And in fact, they must diversify, as shadows mar the landscape too. Beyond our borders, the clouds of protectionism – in particular, in the United States – could jeopardize Canada's future economic growth. Aboriginal people are disproportionately affected in downturns; and even in good times, there is much work to be done before our people will achieve social and economic parity with non-Indigenous Canadians.

AFI lending has contributed much to both Aboriginal economies and the economy at large, yet their contributions are not yet well known. This situation needs to change. It is time for the network, now in its third decade of existence, to declare its presence on the landscape.

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## Building on Success, Reaching New Heights

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In continuity with its past success, aware of present opportunities and challenges, the AFI network needs to emerge with confidence into the future.

The four priorities outlined in NACCA's 2017–22 Strategic Plan were identified through a consultative process that included AFI General Managers, the NACCA Board of Directors, and NACCA staff.

### **Priority 1: Serving NACCA members**

NACCA's reason for being is its members and the Aboriginal businesses they serve. The Association will prioritize member satisfaction, engaging its members through conferences, webinars and social media platforms. In an increasingly web-based loan service environment, NACCA will develop tools, applications and program information assisting AFIs in providing comprehensive care to the next generation of Indigenous entrepreneurs. NACCA will also target its training and capacity support to distinct tiers of lenders.

### **Priority 2: Inspiring Confidence in the Network**

The AFI network's accomplishments are real, but not yet well known. In the next 5 years, NACCA will tell the network's story to decision-makers and potential partners, its own members, potential clients, and the public. It will build relationships amplifying the network's influence at policy tables, and conclude strategic partnerships with other like-minded organizations. Finally, NACCA will enhance its own reputation by obtaining certification of its internal processes.

### **Priority 3: Expanding AFI Financing**

Some AFIs wish to continue focusing on developmental lending. Others seek to grow their range of services into new sectors and products, larger loans and ventures, and social financing.

To realize this priority, the network will strive to secure new capital – both loan and equity – to allow the network's financing activity to grow. As well established lending institutions, they will be poised to deploy any additional capital and program monies quickly. NACCA will also seek to maximize the benefits of the capital the network already receives, developing with members criteria to guide its allocations and reallocations. Further, NACCA will promote diversified funding sources, facilitating the exploration of options in the social finance, innovation, and housing sectors.

### **Priority 4: Assessing and Building on the Network's Success**

The foregoing has made it clear: the network as a whole is successful, and has had significant impact on Aboriginal business development in Canada. Yet there is scope better to understand, benchmark and measure our network's successes, and to cultivate AFI leading practices as norms. NACCA will invest in the network by funding quality management systems (e.g. ISO) for interested AFIs. It will also tailor its capacity resources to assist AFIs in meeting this goal. NACCA is taking the lead in this process, seeking certification of its own operations.

## Summary of Strategic Priorities

The drawing below depicts the network's strategic priorities arranged in a non-hierarchical, circle format. And indeed, there is no "first and last" among the four priorities identified. They mutually reinforce each other and will strengthen the network as a piece. The plan is ambitious. But it also builds on an established record of success. As such, it is achievable in a 5-year timeframe.

### SUPPORT

#### Serving Members

- a. Engage AFIs and community
- b. Provide AFIs with tools
- c. Focus on youth & women
- d. Manage and use NACCA's information
- e. Help members build capacity

### PROMOTE

#### Inspiring Confidence

- a. Tell the network's story
- b. Foster relationships
- c. Improve communications with AFIs
- d. Enhance NACCA's credibility

### CAPITAL

#### Expanding AFI Financing

- a. Seek more capital
- b. Optimize existing capital
- c. Promote diversification

### CAPACITY

#### Assessing & Building on Success

- a. Share leading practices
- b. Assess the network's impact
- c. Develop, adopt and promote standards
- d. Invest in certification.

## In Closing

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The AFI network has existed for three decades. In that time, it has weathered up- and down-turns, federal governments with diverse philosophies, and the emergence of other players on the Aboriginal financing and economic development landscape. Yet of all the players now out there, only AFIs were created by and for Aboriginal people to serve Aboriginal entrepreneurs.

The story of the AFI network closes with an image. NACCA's logo is a stylized eagle in flight, representing the network's role to support the vision, and invest in the strengths, of the Aboriginal entrepreneur. Regardless of their loan portfolio size or the kind of Aboriginal client they serve, AFIs work to that same end – and assume considerable lending risk in doing so.

For the past 25 years, the network has served as a proven partner to both the federal government and corporate Canada. In promoting the employment, prosperity and inclusion of Aboriginal people, AFIs continue to make “reconcile-action” happen – as they have, despite the barriers, for almost three decades.

The network's plan for the future is of a reputable lending network with a strong, visible presence on the landscape. Once implemented, the network will be even better positioned to support the vision, and invest in the strengths, of Aboriginal entrepreneurs.

An investment in the AFI network is an investment in Canada's future. With a renewed commitment of adequate capital, we can help Aboriginal entrepreneurs soar.



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## Appendix A: AFIs Nation-Wide

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### ALBERTA

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Alberta Indian Investment Corporation	Enoch
Apeetogosan (Métis) Development Inc.	Edmonton
Community Futures Treaty Seven	Calgary
Indian Business Corporation	Calgary
Settlement Investment Corporation	Edmonton

### BRITISH COLUMBIA

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Aboriginal Business and Community Development Centre	Prince George
All Nations Trust Company	Kamloops
Burns Lake Native Development Corporation	Burns Lake
CFDC of Central Interior First Nations	Kamloops
Haida Gwaii Community Futures	Massett
Native Fishing Association	West Vancouver
Nuu-chah-nulth Economic Development Corporation	Port Alberni
Stó:lō Community Futures Corp	Chilliwack
Tale'Awtxw Aboriginal Capital Corporation	West Vancouver
Tribal Resources Investment Corporation (TRICORP)	Prince Rupert

### MANITOBA

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Arctic Co-operative Development Fund	Winnipeg
Cedar Lake Community Futures Development Corp.	La Pas
Community Futures North Central Development	Thompson
Dakota Ojibway Futures Development Corporation	Headingley
First Peoples Economic Growth Fund Inc.	Winnipeg

Kitayan Community Futures Development Corp.	Winnipeg
Louis Riel Capital Corporation	Winnipeg
Métis Economic Development Fund	Winnipeg
Northwest Community Futures Development Corporation	Lynn Lake
Southeast Community Futures Development Corporation	Winnipeg
Tribal Wi-Chi-Way-Win Capital Corporation	Winnipeg

### NOVA SCOTIA

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Ulnooweg Development Group Inc.	Truro
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### NORTHWEST TERRITORIES

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Akaiicho Business Development Corporation	Yellowknife
Deh Cho Business Development Centre	Fort Simpson
Dogrib Area Community Futures	Wha Ti
NWT Métis-Dene Development Fund	Yellowknife
Sahtu Business Development Centre	Norman Wells
Thebacha Business Development Services	Fort Smith

### NUNAVUT

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Atuqtuarvik Corporation	Rankin Inlet
Baffin Business Development Corporation	Iqaluit
Kakivak Association	Iqaluit
Kitikmeot Community Futures Inc.	Cambridge Bay
Kivalliq Business Development Centre	Rankin Inlet

## Appendix A: AFIs Nation-Wide (cont)

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### ONTARIO

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Indian Agricultural Program of Ontario	Sterling
Métis Voyageur Development Fund Inc.	Ottawa
Nishnawbe Aski Development Fund	Fort William FN
Rainy Lake Tribal Area Business & Financial Services Corporation	Fort Frances
Tecumseh Community Development Corporation	Sarnia
Two Rivers Community Development Centre	Ohsweken
Wakenagun Community Futures Development Corporation	Moose Factory
Waubetek Business Development Corporation	Birch Island

### QUEBEC

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Corporation de développement économique montagnaise	Uashat
Eeyou Economic Group / CFDC Inc.	Waswanipi
Nunavik Investment Corporation	Kuujuuaq
Société de crédit commercial autochtone (SOCCA)	Wendake
Tewatohnhi'saktha Business Loan Fund	Kahnawake
	Mohawk
	Territory

### SASKATCHEWAN

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Beaver River Community Futures Development Corporation	Meadow Lake
Clarence Campeau Development Fund	Saskatoon
Northern Enterprise Fund Inc.	Beauval
Saskatchewan Indian Equity Foundation Inc.	Saskatoon
SaskMétis Economic Development Corporation	Saskatoon
Visions North CFDC	La Ronge

### YUKON

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däna Näye Ventures	Whitehorse
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## Footnotes

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1. Canadian Council for Aboriginal Business, *Promise and Prosperity: The 2016 Aboriginal Business Survey* (September 2016), 6.
2. Statistics Canada, *2011 National Household Survey*. Adam Fiser, *Aboriginal Entrepreneurship in Canada*, forthcoming report prepared Conference Board of Canada for the National Aboriginal Capital Corporations Association and Business Development Bank of Canada (July 2016), 7–12.
3. Canadian Council for Aboriginal Business, *The 2016 Aboriginal Business Survey*, 6.
4. Marie-Christine Bernard, *From Oil to Diamonds: Employment Opportunities for the Aboriginal Workforce*, Conference Board of Canada (July 2016).
5. Adam Fiser, *The Impact of Developmental Finance on Aboriginal Entrepreneurship and Economic Development in Canada: Insights from NACCA and BDC*, draft report prepared for the National Aboriginal Capital Corporations Association (NACCA) and the Business Development Bank of Canada (August 2016), 3.
6. Canadian Council for Aboriginal Business, *The 2016 Aboriginal Business Survey*, 7.
7. Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises* (2011). Also *National Household Survey* (2011).
8. Fiser, *Aboriginal Entrepreneurship in Canada*, 42.
9. According to NACCA's Aboriginal Business Financing Program data set, 42 percent of loans were associated with incorporated businesses, followed by sole proprietors at 25 percent, whereas CCAB survey data from 2010 and 2016 indicate that sole proprietors make up about 61 percent of Aboriginal businesses in Canada (Fiser, *The Impact of Developmental Finance on Aboriginal Entrepreneurship and Economic Development in Canada*, 35).
10. Industry Canada, *Evaluation of Aboriginal Business Canada's Aboriginal Financial Institutions and Access to Capital Program*, ii.
11. Fiser, *The Impact of Developmental Finance on Aboriginal Entrepreneurship and Economic Development in Canada*, 15–16, 24.
12. Canadian Council for Aboriginal Business, *The 2016 Aboriginal Business Survey*, 33.
13. Dominique Collin and Michael Rice *First Nation/Inuit access to capital for business and economic development: trends, gaps, issues and policy implications for AFIs* (presented at NACCA's GM meeting on Nov. 25, 2016).