RESEARCH MODULE 3

Barriers to Aboriginal entrepreneurship and options to overcome them.

Report prepared for:
The National Aboriginal Capital Corporations Association (NACCA) and Business Development Bank of Canada (BDC)

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Introduction

Access to capital is fundamental for business development. In Canada, private sector financing through bank loans, bonds, venture capital, and other instruments, addresses most mainstream capital requirements.[1] Like their non-Aboriginal counterparts, Aboriginal entrepreneurs and SMEs need access to appropriate financing at various stages of their business development, from help starting up, to support with operations, acquisitions, and business expansion[2]. Yet, numerous authorities on the subject of Aboriginal business development continue to observe significant financial hurdles for Aboriginal communities and individuals.[3] Their general conclusion is that private sector finance has largely failed to meet, or sufficiently understand, the needs of Canada's Aboriginal entrepreneurs and SMEs.

As a result of their challenges in accessing capital, many Aboriginal entrepreneurs end up finding solutions that are less than adequate for their business needs. A recent CCAB report presents several common options, including, borrowing from friends and family, using credit cards, working multiple jobs, and cutting into personal and family savings.[4] While in some cases these options may result in success, many entrepreneurs end up operating their businesses undercapitalized, which not only impedes their ability to succeed but also places additional stress on their personal lives. Other research indicates that Aboriginal individuals are also overrepresented as clients of fringe financial services. Such services do little to help build personal wealth or credit, and are more commonly associated with predatory lending. That such suboptimal solutions appear viable raises concerns about financial literacy, and whether Aboriginal entrepreneurs need access to better product information and advisory services from the financial sector.

In this context, Government-assisted finance plays an important role in helping a broad spectrum of Aboriginal businesses meet their capital requirements – from the majority of sole proprietors to the growing roster of Aboriginal community economic development corporations. Government programs such as Indigenous and Northern Affairs Canada's Business Capital and Support Services, provide Aboriginal businesses with non-repayable grants and contributions. Such programs work with clients directly, or through partners such as the various Aboriginal Financial Institutions (AFIs). Government programs also support business development initiatives to assist and advise Aboriginal entrepreneurs and SMEs. Yet, as several recent reports have concluded[5] the supply of government assisted finance and related program funds in Canada is not keeping up with the growing and diverse needs of Aboriginal business development. Other opportunities and support systems need to be in place to improve the financial ecosystem for Aboriginal business development; and this calls for innovative solutions that combine the best of public and private.

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[1] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 025, May 27, 2014) 41st Parliament, 2nd Session.*P. 1

[2] Source: Weir, W. *First Nation Small Business and Entrepreneurship in Canada.*P. 25

[3] Source: Standing Senate Committee on Aboriginal Peoples. *Sharing Canada's Prosperity - A Hand up, Not a Handout.*P. 6

[4] See: Canadian Council for Aboriginal Business. *Promise and Prosperity: The Aboriginal Business Survey.*

[5] *See for example:* Standing Senate Committee on Aboriginal Peoples. *Sharing Canada's Prosperity - A Hand up, Not a Handout;* Weir, W. *First Nation Small Business and Entrepreneurship in Canada*

This research Module, which is part of a three-part research series being conducted for the National Aboriginal Capital Corporations Association (NACCA) and Business Development Bank of Canada (BDC), focuses on the financial service preferences and needs of Aboriginal businesses in light of the overarching financial barriers introduced above.

First, we investigate the financial service preferences of Aboriginal entrepreneurs and small and medium-sized enterprises (SMEs) in Canada. From this starting point we then investigate their unmet service needs and summarize key barriers that restrict their financial capabilities and access to capital. Of special interest are associated opportunities to address unmet service needs and reduce financial barriers. This research Module therefore addresses three main questions:

- What are the financial service preferences of Aboriginal entrepreneurs and SMEs?
- What kinds of financial barriers and unmet service needs affect Aboriginal entrepreneurs and SMEs?
- What opportunities and options are available to reduce barriers and expand/enhance financial services for Aboriginal entrepreneurs and SMEs?

In responding to these questions, our report encompasses five major sections of inquiry. The first section outlines the context of Aboriginal entrepreneurs in Canada by discussing what an Aboriginal entrepreneur or SME is for the purposes if this report. It also touches on their various financial preferences. The second section discusses the barriers and unmet service needs that are prevalent for different kinds of Aboriginal entrepreneurs and SMEs. The third section looks at location-specific challenges that Aboriginal entrepreneurs and SMEs face depending on whether they are located on or off-reserve or in rural, remote (Northern), or urban areas.

The fourth section discusses the adequacy of current financing solutions as well as considerations that need to be assessed beyond traditional credit risk measures to improve the flow of appropriate financing. Our final section concludes with a discussion of smart practices and recommendations to improve the financial ecosystem for Aboriginal business development. These smart practices are drawn from the experiences of public and private sector entities, from NACCA and the AFI network, from BDC, and from the relevant research literature.

Section One: Setting the Context

Although we touched on the definition of Aboriginal entrepreneurs and business owners in Module 1 of this research series, it is worth re-examining the types of businesses that Aboriginal individuals operate, given that the challenges they face often vary, to at least some degree, with their structure. By structure, in this case, we mean to compare the size as well as legal forms that an Aboriginal business can take, including sole proprietorships, partnerships of various kinds, incorporated businesses, and so forth.

In a general sense, Aboriginal businesses are those that are majority owned by First Nations, Métis and/or Inuit individuals. And, for the purpose of this report, we follow the definition promoted by Statistics Canada that characterizes small businesses as having 1 to 99 employees; medium-sized businesses as having 100 to 499 employees, and large businesses as having 500 or more employees.[6]

Since the early 2000s, Aboriginal business development has been on the rise.[7] While there is no exact measure of Aboriginal businesses in Canada[8], from the perspective of self-employed Aboriginal people, the National Household Survey (NHS) provides us with a useful starting point. The NHS reveals that there were almost 38,000 self-employed Aboriginal entrepreneurs and business owners operating in Canada in 2011.[9]

Defining Aboriginal Entrepreneurship

From the starting point of 38,000 individual Aboriginal entrepreneurs and business owners, we will now consider in greater detail their relevant characteristics as clients of financial services and related business development initiatives. Given the general socio-economic conditions, as well as challenges and opportunities that exist, it is worth recognizing the differences that may exist in characteristics and motivations between an Aboriginal and non-Aboriginal entrepreneur.

Aboriginal entrepreneurship takes many forms. As with other entrepreneurs, Aboriginal entrepreneurs conduct their business through a variety of business structures, including sole proprietorships, partnerships, and limited liability corporations. Within these general structures are numerous variations. As shown through Module 1, and based on CCAB data, just over 60 per cent of Aboriginal businesses act as sole proprietorships, roughly 11 per cent act as partnerships, and the remainder operate as incorporated businesses.

Beyond business structure, contemporary research on Aboriginal or Indigenous entrepreneurs has identified common cultural values that characterize Aboriginal approaches to business development. For instance, case studies of Indigenous entrepreneurs, in Canada and internationally, have been found

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[6] Source: Leung, D., L. Rispoli, and B. Gibson. *Small, Medium-Sized and Large Businesses in the Canadian Economy: Measuring their Contribution to Gross Domestic Product in 2005*. P. 7

[7] See Module 1 for more details.

[8] See Module 1 for more details.

[9] For an in-depth analysis of the landscape of Aboriginal entrepreneurship in Canada, please refer to Module 1.

them to share entrepreneurial values that espouse collective success and community concern over narrower views of economic profit tied to individual achievement.[10]

In contrast to more limited forms of entrepreneurship, Indigenous entrepreneurship identifies success across a range of economic and non-economic dimensions.[11] In this way, Indigenous entrepreneurship is very similar to social entrepreneurship, where the social entrepreneur is one who works to support the community, uses their experience to help other entrepreneurs, acts as a role model for the community, and seeks to promote local employment and economic development as a policy and measure of success.[12]

Indigenous Entrepreneurship

"Indigenous entrepreneurship [is] the creation, management and development of new ventures by Indigenous people for the benefit of Indigenous people. The organizations thus created can pertain to either the private, public or non-profit sectors. The desires and achieved benefits of venturing can range from the narrow view of economic profit for a single individual to the broad view of multiple, social and economic advantages for entire communities. Outcomes and entitlements derived from Indigenous entrepreneurship may extend to enterprise partners and stakeholders who may be non-Indigenous."

Source: Hindle, K., and M. Lansdowne. "Brave Spirits on New Paths: Toward a Globally Relevant Paradigm of Indigenous Entrepreneurship Resarch." P. 132

With this in mind, the research indicates that programs to stimulate entrepreneurship on-reserve and in northern and remote communities need to be community-based and reflective of community values. Without this recognition, programs will likely be ill fitted to local realities and preferences, and will not be as effective as they could be.

Depending on their size and structure, these Aboriginal businesses tend to have different financial service preferences. For instance, sole proprietorships without employees see government loans and grants as being of great importance; whereas larger, more complex businesses (specifically those with over half-a-million dollars in revenues) find business loans and lines of credit from varying financial institutions as being of greater importance.[13]

[10] Source: Social Planning Council of Ottawa. *Entrepreneurial Support Services for Immigrant & Visible Minority and Aboriginal Communities.*P. 7
[11] Source: Social Planning Council of Ottawa. *Entrepreneurial Support Services for Immigrant & Visible Minority and Aboriginal Communities.*P. 7
[12] Source: McBride, J.E. *Aboriginal Community Economic Development: Overcoming Barriers to Aboriginal Entrepreneurship.* P. 36
[13] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 043, May 26, 2015) 41st Parliament, 2nd Session.*P. 1

Aboriginal Economic Development Corporations

In addition to the prevailing business structures that will be looked at in this report, namely sole proprietorships and corporations, we will also consider the challenges and needs of Aboriginal Economic Development Corporations (AEDCs).[14]

The majority of the approximately 260 AEDCs operating across Canada are considered to be small businesses - meaning they have less than 100 employees.[15] Nevertheless, a recent CCAB survey of these corporations in Ontario indicates that they can be major employers in their communities, and that more than two-thirds of their employees are typically Aboriginal.[16] For such reasons, we will investigate the special financing needs and preferences of AEDCs as another line of inquiry in this report.

AEDCs are typically owned by Aboriginal governments and organized around the goal of seizing economic opportunities for the communities they serve.[17] While the specific size and structure of these corporations may differ from community to community, they generally follow a "corporate governance framework that sees the community as shareholders, a board of directors that is appointed by Chief and Council, and a management team appointed to oversee business opportunities".[18]

Similar to sole proprietorships and small businesses, AEDCs operate in a wide range of industries. The CCAB survey of AEDCs in Ontario found that the most popular industries include energy, construction, and services such as tourism and property management.[19]

Moreover, the survey found that these organizations generally utilize a mixture of government assisted and private financing, as well as own source revenues to fund their operations.[20] In terms of financial service preferences, less than one-in-five established AEDCs cited banks and other private institutions as being important sources of operational financing.[21] In contrast, when starting up, less than a third of AEDCs counted private institutions as their main sources of financing.[22] AEDCs tend to turn to government financing when starting up - 37 per cent of AEDCs surveyed noted government financing as being a primary funding source.[23]

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[14] These businesses can be thought of as a special subset of incorporated Aboriginal businesses.
[15]Source: White, K. *"We Want Doors Opened, Not Slammed Shut" Aboriginal Economic Development Corporations and Public Policy: Case Studies from Saskatchewan.* P. 8
[16] See: Canadian Council for Aboriginal Business. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario*. P. 33
[17] Source: White, K. *"We Want Doors Opened, Not Slammed Shut" Aboriginal Economic Development Corporations and Public Policy: Case Studies from Saskatchewan.*P. II
[18] Source: White, K. *"We Want Doors Opened, Not Slammed Shut" Aboriginal Economic Development Corporations and Public Policy: Case Studies from Saskatchewan.*P. 6
[19] Source: Canadian Council for Aboriginal Business,. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario.*P. 10
[20] Source: Canadian Council for Aboriginal Business,. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario.*P. 24
[21] Source: Canadian Council for Aboriginal Business,. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario.*P. 24
[22] Source: Canadian Council for Aboriginal Business,. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario.*P. 24
[23] Source: Canadian Council for Aboriginal Business,. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario.*P. 24

Section Two: Barriers and Unmet Service Needs

In 1998, a study by Industry Canada and Aboriginal Business Canada found that over half (56 per cent) of Aboriginal entrepreneurs had inadequate access to equity and/or debt, citing, among various reasons, no local financial institutions, lack of personal resources, and unavailability of venture capital.[24] Nearly twenty years later, that situation continues to affect many Aboriginal entrepreneurs and SMEs.

Research on Aboriginal business development has continuously sought to understand the barriers and unmet service needs of Aboriginal entrepreneurs and SMEs in an attempt to find solutions. And, from a review of this literature, we found that it is important to recognize at the beginning that there is no one single issue; rather there are several barriers that vary based on a variety of circumstances.

This is perhaps best demonstrated by research conducted by the Canadian Council for Aboriginal Business (CCAB). In a 2014 survey of Aboriginal business owners in Ontario, CCAB found that those surveyed did not share any common barrier; rather, when asked what barriers, if any, restrict their access to capital (unprompted, without being offered response options), a majority (56%) of Aboriginal businesses cite several, including[25]:

- A lack of collateral (8%);
- Being a new, high-risk business (8%);
- Having too much debt or a poor credit rating (8%);
- Dealing with bureaucracy (8%); and
- Being Aboriginal (7%).

Despite the variety of challenges, there are a number of barriers and needs that appear to be general concerns of Aboriginal entrepreneurs and SMEs across Canada. In sorting out these general concerns, our review of the literature identified three outstanding categories: structural, financial, and cultural and institutional challenges. In addition, these challenges need to be considered based on the type of business structure involved (e.g., sole proprietorships and other small businesses compared to AEDCs). In addition to these types of challenges we will highlight specific challenges faced by youth and women as these groups face their own characteristic business development and financing challenges. The remainder of this section will address each of these categories in order to provide a clear landscape of the obstacles that Aboriginal entrepreneurs face.

Structural Challenges

There are a number of structural challenges that must be kept in mind when looking at the barriers facing Aboriginal entrepreneurs and SMEs. It is well documented that Aboriginal communities face socio-economic conditions that differ and are, in the majority of cases, more difficult than non-Aboriginal communities across Canada. While this report does not aim to outline all of the realities that

[24] Source: Heidrick, T., and T. Nicol. *Financing SMEs in Canada: Barriers Faced by Woman, Youth, Aboriginal and Minority Entrepreneurs in Accessing Capital - Phase 1: Literature Review.* P. 17

[25] Source: Canadian Council for Aboriginal Business. *Promise and Prosperity: Ontario Aboriginal Business Survey.*P. 27

Aboriginal communities face, it is important to recognize that the socio-economic conditions that individuals coming from these communities' face will have an impact on their ability to start-up and effectively manage a business.

Indigenous and Northern Affairs Canada has been tracking some of these socio-economic conditions for a number of years using what they call the "Community Well-Being Index".[26] Studies of the Index since the early 1980s indicate that, although conditions for First Nations communities have been improving, the gap between these communities and non-Aboriginal communities has remained substantial over the years.[27] Notably, First Nations communities lag substantially behind other communities in Canada in terms of educational attainment and labour force activity.

Delving deeper into this issue, the Programme for the International Assessment of Adult Competencies found that Aboriginal people in Canada have, on average, lower scores in numeracy and literacy than non-Aboriginal people.[28] Such competencies are fundamental to many of the transactions required by individuals when they deal with financial services and government programs. They are also fundamental building blocks for most successful entrepreneurs who have set out to start and manage their own business. The Programme found significant skills deficits in literacy and numeracy among Aboriginal and northern populations in the Yukon, Northwest Territories, and Nunavut. Moreover, the Programme found that Aboriginal adults in Canada had significant skills deficits associated with Problem-Solving in Technology Rich Environments (e.g., the ability to use technology to acquire and use information, as well as to communicate with others and perform tasks).[29] Such skills deficits make it more difficult for individual entrepreneurs to use and feel comfortable using online banking systems and e-learning tools for business support. Being effectively shut out from these virtual options limits their access to capital and financial advice.

The above mentioned socio-economic conditions can have a significant impact on business development opportunities. For instance, the high unemployment rates and low incomes featured in Aboriginal communities make it difficult for individuals to save money for business ventures.[30] Similarly, low educational attainment hinders one's ability to effectively operate a business and negotiate transactions with financial service providers and government programs.

Financial Challenges

Aboriginal individuals face numerous financial challenges when opening and managing their businesses. Some of these challenges are related to their inability to access basic financial services due to a lack of

[26] The Community Well-Being index is composed of four factors: income, education, housing conditions, and labour force activity.
[27] Source: Aboriginal Affairs and Northern Development Canada. *The Community Well-Being Index: Summary of Trends in First Nations Communities, 1981-2011.* P. 1
[28] Source: Tourism and the Centre for Education Statistics Division. *Skills in Canada: First Results from the Programme for the International Assessment of Adult Competencies.*P. 43
[29] Source: Tourism and the Centre for Education Statistics Division. *Skills in Canada: First Results from the Programme for the International Assessment of Adult Competencies.*P. 45
[30] Ketilson, L., and K. Brown. *Financing Aboriginal Enterprise Development: The Potential of Using Co-Operative Models*. P. 5

infrastructure in place, but others are more deeply entwined in the opportunities and abilities of Aboriginal people to operate within the financial system.

On this note, there are three culminating factors - the limited availability of banking services, a lack of financial literacy and capacity, and the increase in fringe financial services - which we believe have contributed to Aboriginal entrepreneurs needing to rely on savings. In most cases these factors add an additional layer challenges on top of the socio-economic conditions discussed above.

Available Banking Services

As noted in Module 1, the vast majority of Aboriginal communities do not have a bank within their boundaries. Notably, as of this year, the four major banks in Canada (i.e., the Royal Bank of Canada, the Bank of Montreal, the Canadian Imperial Bank of Commerce, and Scotiabank) collectively have less than 50 Aboriginal branches, banking outlets, or banking centres located on-reserve.[31] Amongst the many impacts of this, individuals who have limited access to mainstream financial institutions often have no or poor credit scores[32], which exacerbates the challenges of accessing financing from these institutions.

As it stands, there are no publicly available data on the differences in credit ratings between Aboriginal and non-Aboriginal people in Canada. However, available regional comparisons of risk show substantial differences. Notably, Forrest Green RMC (a licensed Consumer Credit Reporting Agency) compared the credit scores of six First Nations communities across Canada to a typical Ottawa home in 2015 and found over a 100-point difference in the average risk score (with the First Nations' communities average being 657 and the Ottawa average being 761).[33]

Some banks have taken steps to better engage Aboriginal communities by offering services that target entrepreneurs and by creating unique programs tailored to the needs and preferences of Aboriginal individuals. For instance, in addition to targeted services for Aboriginal entrepreneurs, the Royal Bank of Canada developed a program called the Royal Eagles, a fellowship for Inuit, Métis and First Nations employees, with the goal of acting as a resource for Aboriginal communities.[34]

However, despite these programs, several barriers still exist resulting in lost potential on both sides of the financial services market. It is difficult to pinpoint the monetary value of Aboriginal clientele for the major banks, as banks do not readily disclose this information; however, it is clear that banking services with Aboriginal peoples are growing. In 2015 it was estimated that Aboriginal commercial banking opportunities (including loans and deposits for medium-sized businesses, economic development corporations, and Aboriginal governments) could total six to seven billion dollars annually.[35]

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[31] Source: Bank of Montreal, *Aboriginal Branches*; Royal Bank of Canada, *Branches in Aboriginal Communities*; Scotiabank of Canada, *Aboriginal Banking Centres*; and Canadian Imperial Bank of Commerce; *CIBC Banking on or near Reserves*.
[32] Source: Dewees, S. *Building Assets and Building Lives: Financial Capability Programs in Native Communities.* P. 36
[33] Source: Rowe, M. *Presentation to the Standing Senate Committee on Aboriginal Peoples.* Pg. 4
[34] Source: Creating Community Options for Financial Services. "Conference Summary Report." *Creating Community Options for Financial Services.* P. 9
[35] Source: Shecter, B. "An 'Emerging Market' at Home: Canada's Banks Making a Big Push Into Aboriginal Communities." http://business.financialpost.com/news/fp-street/an-emerging-market-at-home-how-canadian-banks-are-making-a-big-push-into-aboriginal-banking

The fact that mainstream non-Aboriginal financial institutions have a sparse presence on reserves and in northern communities means that they do not have working relationships with many of those communities.[36] This limits their ability to understand the unique needs and preferences of this growing market.

Despite the growing market and the fact that many large banks in Canada offer services that target Aboriginal individuals, the lack of on-the-ground infrastructure can have a great impact on Aboriginal entrepreneurs' ability to seize opportunities. This issue is not limited to Aboriginal entrepreneur's located on-reserve as rural and remote areas have seen a decrease in their access to financial services over the years.[37]

In addition to the major banks, there are a couple of Aboriginal-owned banking institutions including the Peace Hills Trust and the First Nations Bank of Canada that offer business banking services.[38] Notably, the First Nations Bank operates six branches in the territories.[39] Moreover, the company argues that they fill a "niche market" as in the past they have seen strong growth and limited losses on loans.[40]

Lastly, there are several credit unions that have entered the Aboriginal banking space (see textbox below). However, even when considering credit unions, as of 2013 there were only 54 banks and credit union branches located on-reserve.[41]

Examples of Credit Unions in Canada with an Aboriginal Presence

There are several credit unions in Canada that have a presence or operate close to Aboriginal communities. These institutions include the following examples:

Affinity Credit Union
The Affinity Credit Union has worked to develop relationships with Aboriginal individuals by creating an on-reserve presence as well as products and services that meet the specific needs of its Aboriginal clients.

Me-Dian Credit Union
The Me-Dian Credit Union serves Winnipeg's large Aboriginal population as well as more rural communities such as the Grand Rapid reserve. The credit union has developed agreements with Band councils of reserve communities to allow them to repossess items in the case of a loan default (for example, the ability to repossess cars).

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[36] Source: Office of the Auditor General of Canada. *Report of the Auditor General of Canada to the House of Commons: Chapter 9 Economic Development of First Nations Communities: Institutional Arrangements.* P. 7
[37] Source: Collin, D. *Aboriginal Financial Literacy in Canada: Issues and Directions.* P. 10
[38] Source: First Nations Bank. *Business.* 2016. https://www.fnbc.ca/Business/ (accessed June 23, 2016); and Peace Hills Trust. *Business.* 2016. https://www.peacehills.com/Business/ (accessed July 18, 2016).
[39] Source: First Nations Bank of Canada. *Find Branch/ATM.* 2016. https://www.fnbc.ca/ToolsAndCalculators/Locations/ (accessed July 27, 2016).
[40] Source: Pitts, G. "How Canada's Other National Bank is Expanding." http://www.theglobeandmail.com/report-on-business/careers/careers-leadership/how-canadas-other-national-bank-is-expanding/article1386622/
[41] Source: Anderson, J. *Why Canada Needs Postal Banking.*P.7

Vancity

Vancity operates within the traditional territory of the Coast Salish First Nations people and has worked to partner with local Aboriginal individuals in order to develop financing solutions that fit their needs. Vancity participated in the federal government's Loan Loss Reserve program - designed to reduce the risk of commercial lending on-reserve.

Source: Martin, K. *Deepening Relationships: Credit Union and Aboriginal Peoples Case Studies.* Credit Union Central of Canada, 2012.

One way that the mainstream banking world has expanded past its usual physical boundaries is through virtual means. Recent advances in technology have allowed for an exponential growth in online banking services, making it easier for individuals to conduct transactions wherever there is an internet connection. However, as discussed earlier, without the proper competencies, such as an adequate level of financial literacy, these technological advances may not be useful or indeed useable. Notably, the Programme for International Assessment of Adult Competencies found that a large proportion of Aboriginal self-employed individuals in Canada do not, or rarely, conduct transactions on the internet (see table below).

Table 1: How often do you Conduct Transactions on the Internet? (Self-Employed Aboriginal Individuals)

	Atlantic (%)	Quebec (%)	Ontario (%)	West (%)	North (%)
Never	52	53	27	33	7
Less than once a month	0	0	10	4	5
Less than once a week but at least once a month	0	0	11	18	23
At least once a week but not every day	19	44	18	12	33
Every day	29	2	34	33	32

Note: numbers are based on a jackknife tabulation of data.
Source: Programme for International Assessment of Adult Competencies

Financial Literacy and Capability

Financial literacy encompasses the knowledge and skills an individual needs to manage their personal finances. Recent research indicates that Aboriginal peoples in Canada face significant financial literacy challenges. These challenges can be directly related to the structural issues outlined in the previous section. Education, literacy, and numeracy challenges combined with the remote nature of many Aboriginal communities and their infrastructure deficits, all play a role in weakening financial literacy.[42] In addition, Collin (2011) argues that "cultural barriers such as language, values that affect financial decisions, the persistence of non-cash-based economies, lack of trust toward financial institutions, and habituation to government program management culture all affect financial literacy" for Aboriginal

[42] Source: Collin, D. *Aboriginal Financial Literacy in Canada: Issues and Directions.*P. 3

entrepreneurs.[43] Such cultural barriers can make it difficult for entrepreneurs to see alternative solutions to their financial service needs.

In part because of low levels of financial literacy, financial management challenges are persistent for Aboriginal peoples in Canada. For instance, the 2014 Canadian Financial Capability Survey[44] found that the Aboriginal population living off-reserve is under higher financial stress than most Canadians.[45] These individuals were found to be less likely to keep up with their bills, with half stating they "struggle to keep up with a bill" or are "not keeping up".[46] Moreover, these individuals were the least likely to have a budget.[47]

Once combined with the lack of access to basic financial services, such as a bank branches, it is clear that many Aboriginal entrepreneurs have low financial capability. Closely associated with financial literacy, financial capability is the knowledge and ability to act through available financial products and services. (See textbox below).

Financial Literacy vs. Financial Capability

Although closely related, the concepts of financial literacy and financial capability also cover distinct aspects of an individual or group's financial situation.

Financial Literacy

Financial literacy refers to the knowledge and skills that people possess to manage their own finances in order to be financially secure over a lifetime. Financial literacy contains a component of financial education.

Financial Capability

Financial capability encompasses both the ability to act through having an understanding of options (gathered through financial literacy) as well as the opportunity to act through the availability of financial products and services that are affordable and reliable.

Source: Dewees, S. *Building Assets and Building Lives: Financial Capability Programs in Native Communities.* Pg. 2

There have been numerous initiatives put in place to try to improve financial literacy for Aboriginal peoples in Canada. For instance, several AFIs have integrated financial literacy into their business practices, including things like business plan development and advisory services as conditions of loans.[48] From a more organizational perspective, Indian and Northern Affairs Canada provides NACCA with

[43] Source: Collin, D. *Aboriginal Financial Literacy in Canada: Issues and Directions.*P. 3
[44] It should be noted that the 2014 Canadian Financial Capability Survey had a relatively small sample size of Aboriginal people, and thus must be read with caution.
[45] Source: Financial Consumer Agency of Canada. *Managing Money and Planning for the Future: Key Findings from the 2014 Canadian Financial Capability Survey.* P. II
[46] Source: Financial Consumer Agency of Canada. *Managing Money and Planning for the Future: Key Findings from the 2014 Canadian Financial Capability Survey.* P. 3
[47] Source: Financial Consumer Agency of Canada. *Managing Money and Planning for the Future: Key Findings from the 2014 Canadian Financial Capability Survey.* P. 8
[48] Source: Collin, D. *Aboriginal Financial Literacy in Canada: Issues and Directions.* P. 4

roughly $7.8 million of which part is put towards developing financial literacy of board members and employees of the institutions, so that member AFIs may be better able to develop the financial literacy and capability of their clients.[49]

However, without ready access to financial advisors and related service providers, it is difficult to improve financial literacy. Consumers have very little incentive to learn about financial products and services if they cannot access them. When combined, a lack of financial literacy and financial capability can have a significant negative impact on new entrepreneurs. Even when located in urban centres, Aboriginal people can face significant barriers to financial systems: low-income individuals face significant obstacles due to language, literacy, and numeracy challenges, combined with more minor but still problematic challenges (e.g., lacking sufficient personal identification, limited experience in urban settings, etc.).[50]

Fringe Financial Services

In part due to low levels of financial capability, we believe that predatory lending has become an issue, as well as barrier, for some sectors of Aboriginal entrepreneurship – particularly at the smaller sized end of the business structure scale. Predatory lending encompasses a wide variety of services, including but not limited to, pawnshops, payday lenders, and cheque cashers, all of which can be very expensive.[51] There has been a sharp rise of fringe financial services that operate as predatory lenders since the early 2000s[52], becoming particularly more prominent in lower socio-economic areas in urban centres.[53] Limited or no access to mainstream banking institutions and trusted financial advisors contributes to this issue.

Estimates of the unbanked population, who likely use fringe financial services in Canada, vary from three to fifteen per cent[54]. That being said, it is likely that these estimates are higher for sub-populations that occupy low-income neighbourhoods, such as some Aboriginal populations.

We do not believe that a large proportion of entrepreneurs frequent fringe financial services to try and capitalize their businesses. In fact, a survey of Aboriginal entrepreneurs in 2011 conducted by the CCAB found that less than five per cent of Aboriginal entrepreneurs used “other” financing options to start their business (outside of business loans; credit from government programs; savings; loans from Aboriginal business lending institutions; personal loans from banks, credit unions or Caisse Populaire; loans or equity from friends and family; personal credit cards; or business loans or credit from Caisse Populaire or credit unions).[55] However, when accessed, fringe financial services trap their clients with

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[49] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 031, February 24, 2015) 41st Parliament, 2nd Session.*P. 10
[50] Source: Collin, D. *Aboriginal Financial Literacy in Canada: Issues and Directions.*P. 9
[51] Source: Creating Community Options for Financial Services. "Conference Summary Report." *Creating Community Options for Financial Services.*P. 2
[52] Source: Bowles, P., K. Dempsey, and T. Shaw. *Fringe Financial Institutions, the Unbanked, and the Precariously Banked: Survey Results from Prince George, B.C.*.P. 4
[53] Source: Martin, T., A. Curran, and J. Lapierre. "Banking in Winnipeg's Aboriginal and Impoverished Neighbourhood." P. 331
[54] Source: Bowles, P., K. Dempsey, and T. Shaw. *Fringe Financial Institutions, the Unbanked, and the Precariously Banked: Survey Results from Prince George, B.C.*.P. 9
[55] Source: Canadian Council for Aboriginal Business. *Promise and Prosperity: The Aboriginal Business Survey.* P. 29

high transactional fees, thus limiting their ability to save and not contributing to building or improving the client's credit.

In contrast to the CCAB study, several recent surveys of individual financial practices suggest that Aboriginal individuals disproportionately frequent fringe financial institutions. For instance, a study in Prince George, British Columbia, found that Aboriginal individuals were high users of fringe financial services, and that frequency of use was negatively correlated with socio-economic conditions such as education and income.[56] Of the Aboriginal clients surveyed, over half had less than a high school diploma[57] and the vast majority (80 per cent) were low income (making less than $20,000 per year)[58]. Both of these factors, education and income, point to the structural challenges noted previously. Similarly, a study of fringe financial services in Winnipeg determined that Aboriginal people turn to fringe financial services to get around mainstream financial sector barriers, including the inability to keep a bank account (due to low income), discrimination, lack of respect, lack of proper identification to open a bank account, and the lack of mainstream banking options in their vicinity.[59]

Reliance on Savings

In combination, the above reasons contribute to limiting Aboriginal entrepreneurs' access to capital; and as a result, Aboriginal entrepreneurs unduly rely on personal savings to finance their businesses. In CCAB's 2011 national survey of Aboriginal entrepreneurs, 55 per cent of respondents noted that they rely on personal savings as a main source of financing.[60] Moreover, in a more recent CCAB survey, Aboriginal entrepreneurs in Ontario noted that they rely to a large degree on personal savings as both a source of start-up financing (71 per cent of respondents) and on-going financing for operations and expansion (57 per cent of respondents).[61]

Beyond the direct impediment of having to rely on savings, doing so limits an individual's ability to improve (or maintain) their credit score. This impediment can then turn into a vicious cycle in that it may hinder them from ever improving their financial standing to access mainstream financial services in the future.

Cultural and Institutional barriers

As briefly touched upon in earlier sections, Aboriginal entrepreneurs face a number of cultural and institutional barriers that may impede their access to capital and financial services. For instance, a number or researchers in Canada have identified linguistic differences (the fact that financial service transactions generally occur in English or French)[62] and in some cases a lack of trust towards financial

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[56] See: Bowles, P., K. Dempsey, and T. Shaw. *Fringe Financial Institutions, the Unbanked, and the Precariously Banked: Survey Results from Prince George, B.C.*

[57] Source: Bowles, P., K. Dempsey, and T. Shaw. *Fringe Financial Institutions, the Unbanked, and the Precariously Banked: Survey Results from Prince George, B.C.*Pg. 22

[58] Source: Bowles, P., K. Dempsey, and T. Shaw. *Fringe Financial Institutions, the Unbanked, and the Precariously Banked: Survey Results from Prince George, B.C.*Pg. 22

[59] See Martin, T., A. Curran, and J. Lapierre. "Banking in Winnipeg's Aboriginal and Impoverished Neighbourhood."

[60] Source: Canadian Council for Aboriginal Business. *Promise and Prosperity: The Aboriginal Business Survey.* P. 29

[61] Source: Canadian Council for Aboriginal Business. *Promise and Prosperity: Ontario Aboriginal Business Survey.* P. 25-26

[62] Source: Parker, Z., and V. DeBono. *Aboriginal Access to Capital in Western and Northern Canada: Issues, Obstacles, and Directions.*P. 4

institutions as potential impediments. (The issue of trust has most frequently been associated with collectivist perspectives identified with smaller rural and remote Aboriginal communities).

For the purpose of this report, we follow North's (1991) definition of institutions as "humanly devised constraints that structure political, economic and social interaction".[63] These institutions impact both sides of the financing and business relationship (i.e., financial institutions and business clients).

According to several Canadian studies, a number of Aboriginal communities have viewed entrepreneurship as being "overly individualistic, anti-community, and more of a Western-European government strategy than an Indigenous approach to economic and community development".[64] Even now, Munnings, a lawyer originally from Curve Lake First Nation (Ontario), discusses the "perceived belief" that entrepreneurship and First Nations cultures are not compatible[65]. However, the prevailing view of entrepreneurship in Aboriginal communities also appears to have changed, contributing to the sharp rise in Aboriginal entrepreneurship over the past few decades. In fact, many Aboriginal entrepreneurs have noted that running a business allows them to give back to their communities, thus strengthening their Indigenous identities rather than weakening community ties.[66]

That being said, even now cultural and institutional barriers are still present for mainstream financial institutions to fully interact with Aboriginal entrepreneurs; a lack of understanding of Aboriginal culture, communities, political structures, and mixed rural and remote economies hinders their understanding and in some cases increases the perceived risk of lending.[67] Moreover, it has been noted that some mainstream financial institutions lack a clear understanding of the circumstances of on-reserve business development. For instance, during a review of economic development opportunities by the Office of the Auditor General of Canada, representatives of one prominent First Nation community "noted that both a major chartered bank and a local financial co-operative questioned whether the First Nation's economic development organizations could legally borrow money".[68]

Challenges of Varying Enterprises

The financial challenges and needs of Aboriginal businesses can vary considerably with their size and business structure. For instance, the needs of an entrepreneur starting up a sole proprietorship will differ significantly from those of an established AEDC with several employees. For this reason, we will briefly contrast the distinct challenges faced by sole proprietorships and small businesses versus those of AEDCs when it comes to accessing capital.

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[63] Source: North, D. "Institutions." P. 97
[64] Source: Weir, W. *First Nation Small Business and Entrepreneurship in Canada.* P. 8
[65] Source: Munnings, "A Model for the Development of Entrepreneurship on First Nation Indian Reserves" P. 50
Source: Munnings, "A Model for the Development of Entrepreneurship on First Nation Indian Reserves" P. 13
[67] Source: Ketilson, L. "Partnering to Finance Enterprise Development in the Aboriginal Social Economy." P. S41
[68] Source: Office of the Auditor General of Canada. *Report of the Auditor General of Canada to the House of Commons: Chapter 9 Economic Development of First Nations Communities: Institutional Arrangements.* P. 7

Sole Proprietorship and Small Business

The majority of Aboriginal businesses operate as sole proprietorship, and are therefore small in scale. Due to their small size, the fact that many of these businesses are often in the early stages of their development, and the various socio-economic conditions often faced by these entrepreneurs, their ventures are often perceived by lenders as being high risk. Moreover, CCAB found that a majority of these businesses cite "lack of collateral, being a new high-risk business, and having too much debt or a poor credit rating" as being a barrier to accessing financing.[69]

As a result of the challenges that these businesses face in accessing capital, many of them rely on personal savings for start-up and ongoing financing.[70] Research by CCAB suggests that having the knowledge of where and how to apply for financing (including the necessary requirements) remain as large barriers.[71]

Aboriginal Economic Development Corporations

AEDCs have noted several barriers to accessing capital financing. For instance, challenges in accessing government assisted financing include reporting requirements, and a lack of autonomy that may occur if and AEDC financing request has to fit specific policy objectives.[72] In contrast, while AEDCs note that private financing shows a "vote of confidence" for their organization, a lack of collateral can act as a great barrier, and the high cost of borrowing (including the potential of giving up equity and ownership) can act as a disincentive.[73] Outside of the financing realm, other evidence indicates that some AEDCs, despite their proven track records, have found it difficult to attract partnerships with non-Aboriginal organizations history due to the general stigma of risk associated with Aboriginal economic development organizations.[74]

AEDCs have noted two financing priorities moving forwards. The first is to build financial capacity and develop greater knowledge on how to access financing for major projects, such as infrastructure, and the second is how to fund soft costs on an ongoing basis (e.g., funds for salaries, writing business plans, or paying consultants).[75]

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[69] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 043, May 26, 2015) 41st Parliament, 2nd Session.*P. 1

[70] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 043, May 26, 2015) 41st Parliament, 2nd Session.*P. 1

[71] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 043, May 26, 2015) 41st Parliament, 2nd Session.*P. 1

[72] Source: Canadian Council for Aboriginal Business,. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario.*P. 26

[73] Source: Canadian Council for Aboriginal Business,. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario.*P. 26

[74] Source: White, K. *"We Want Doors Opened, Not Slammed Shut" Aboriginal Economic Development Corporations and Public Policy: Case Studies from Saskatchewan.*P. 36

[75] Source: Canadian Council for Aboriginal Business,. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario.*P. 25

Challenges for Youth and Women

Despite being twice as likely as other Canadian youth to become entrepreneurs, Aboriginal youth face significant financial service barriers, beyond those outlined above. Interestingly, Aboriginal youth seem to be more aware of the programs available to obtain capital than other youth, but are less optimistic that they will be able to find training or that the training will help them start their business.[76] Given their youth, limited cash equity and personal capital can be a significant barrier[77], simply because they have not had the time to grow their own wealth. Moreover, limited experience and education place significant burdens on Aboriginal youth entering the business environment.[78] For them, financial literacy and capability are important concerns.

Similarly, women face significant challenges in accessing financing in part due to their lower levels of average income compared to non-Aboriginal Canadians.[79] In many cases, Aboriginal women are less able to draw upon the resources of their friends and relatives as they tend to also have similarly low levels of income and savings.[80] In terms of entrepreneurship, results from CCAB's 2011 Aboriginal Business Survey found that women were far more likely to consider access to financing as a barrier to growth than men (61 per cent versus 39 per cent).[81] Moreover, women were more likely than men to view their credit rating as a barrier to obtaining capital (10 per cent versus 5 per cent).[82]

Results from the CCAB survey also suggest that a large proportion of women run businesses in the service sector and need less start-up financing than their male counterparts (operating in sectors such as construction, etc.).[83] However, a survey of Métis women entrepreneurs found that seeking small loans ($5,000-$20,000) might actually hinder these women, as Métis Financial Institutions "unofficially frown on micro-loans because they are more work (to process) than they are worth".[84] To this point, a majority of the Métis women surveyed did not use services provided by business service providers or Métis Financial Institutions.[85] These Métis women preferred support from their peers and the ability to connect with other entrepreneurs was pointed to as a success factor for their businesses.[86]

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[76] Source: Heidrick, T., and T. Nicol. *Financing SMEs in Canada: Barriers Faced by Woman, Youth, Aboriginal and Minority Entrepreneurs in Accessing Capital - Phase 1: Literature Review.* P. 18
[77] Source: Northern Development Ministers Forum. *Aboriginal Youth Entrepreneurship Success Factors and Challenges.* P. 10
[78] Source: Northern Development Ministers Forum. *Aboriginal Youth Entrepreneurship Success Factors and Challenges.* P. 7
[79] Source: Aboriginal Business and Community Development Centre. *Aboriginal Women in Economic Development: Final Report.* P. 8
[80] Source: Aboriginal Business and Community Development Centre. *Aboriginal Women in Economic Development: Final Report.* P. 8
[81] Source: Paul Hanley Consulting. "Strengthening Métis Women's Entrepreneurship: Survey, Review and Analysis." P. 37
[82] Source: Paul Hanley Consulting. "Strengthening Métis Women's Entrepreneurship: Survey, Review and Analysis." P. 38
[83] Source: Paul Hanley Consulting. "Strengthening Métis Women's Entrepreneurship: Survey, Review and Analysis." P. 129
[84] Source: Paul Hanley Consulting. "Strengthening Métis Women's Entrepreneurship: Survey, Review and Analysis." P. 10
[85] Source: Paul Hanley Consulting. "Strengthening Métis Women's Entrepreneurship: Survey, Review and Analysis." P. 5
[86] Source: Paul Hanley Consulting. "Strengthening Métis Women's Entrepreneurship: Survey, Review and Analysis." P. 22

Section Three: Location-Specific Preferences and Challenges

Although Aboriginal entrepreneurs all face challenges and opportunities, they also have distinct preferences and individual obstacles that reflect the specific environments in which they operate. For instance, the challenges that a First Nations' entrepreneur living on-reserve faces will be significantly different from those of an Inuk entrepreneur living in a remote northern community, which will in turn be significantly different from a Métis or non-status First Nation entrepreneur living in Toronto.

As we will point to in this section, the economic circumstances of Aboriginal entrepreneurs are diverse. For instance, over 60 per cent of First Nations communities have less than 500 people, and over one-in-five are located in isolated and remote areas.[87] Recognizing this, we have outlined four different categories of locations - on-reserve, rural, northern or remote, and urban - in order to analyze the distinct challenges and preferences of entrepreneurs in these areas.

Table 2 below provides some insight into the distribution of entrepreneurs by location and Aboriginal identity. Notably, the vast majority of Aboriginal self-employed individuals, according to the 2011 National Household Survey (NHS), live off-reserve. Moreover, over half of these self-employed individuals live in an urban population centre.

Table 2: Breakdown of Aboriginal self-employed by location of business and Aboriginal identity, 2011

Location of business	Aboriginal Self-employed	First Nations	Inuk	Métis	First Nations	Inuk	Métis
Total - Area of residence	37,685	16,430	675	19,045	**44%**	**2%**	**51%**
1. On-reserve	2,820	2,730	0	60	**97%**	**0%**	**2%**
2. Off-reserve	34,865	13,705	670	18,985	**39%**	**2%**	**54%**
Rural	12,320	4,200	255	7,265	**34%**	**2%**	**59%**
Population centre	22,540	9,500	420	11,720	**42%**	**2%**	**52%**
3. non-CMA	7,740	3,145	210	4,085	**41%**	**3%**	**53%**
4. CMA	14,805	6,355	210	7,635	**43%**	**1%**	**52%**

Source: 2011 National Household Survey

As noted in Module 1, it is difficult to measure Aboriginal entrepreneurship in Canada given the lack of data and diversity of business structures. Given that there is no perfect measure[88] it is important to recognize that the distribution in the table above may not accurately represent the true level of

[87] Source: Office of the Auditor General of Canada. *Report of the Auditor General of Canada to the House of Commons: Chapter 9 Economic Development of First Nations Communities: Institutional Arrangements.* P. 3

[88] For instance, from the National Household Survey we use the proxy of "self-employed" to represent entrepreneurship.

Aboriginal entrepreneurship in Canada. In particular, we believe that the 2011 NHS may undercount entrepreneurship, particularly on-reserve. In Module 1 we turned to the 2015 Canadian Business Patterns Database to acquire additional information about the size of Aboriginal entrepreneurship on-reserve by looking at the number of businesses located in Census Sub-Divisions classified as Indian Reserves, or located in Census Sub-Divisions associated with majority Aboriginal populations. After doing so, we noted that there is a significantly higher number of on-reserve businesses counted through the Business Patterns Database than self-employed individuals counted through the 2011 NHS. While a portion of this difference may come from the change in time and possible presence of non-Aboriginal owned businesses located on-reserve, these factors are not sufficient to account for the vast difference in estimates. As result, the following summaries are intended as a best effort approximation.

On-Reserve

The 2011 National Household survey reported there were 2,820 self-employed Aboriginal people on-reserve.[89] Of this group, 97 per cent were First Nation.

That being said, the 2015 Canadian Business Patterns Database suggests that there are over 10,000 businesses located on-reserve; more than three times the number of businesses suggested by the NHS. According to the Canadian Business Patterns Dataset, businesses located on-reserve are highly concentrated with roughly half falling under four industry categories; agriculture, forestry, fishing and hunting (17.2 per cent of businesses on-reserve); unclassified businesses (10.5 per cent); construction (10.3 per cent); and retail trade (8.7 per cent).[90] In contrast, the 2011 NHS dataset suggests that the most common on-reserve industries are construction (22 per cent of on-reserve self-employed); agriculture, forestry, fishing and hunting (15.0 per cent); retail trade (11.2 per cent); and other services (except public administration (8.9 per cent).[91]

On-Reserve Challenges

In comparison to Aboriginal entrepreneurs living off-reserve, on-reserve entrepreneurs face significantly higher challenges in accessing capital and operating businesses. Arguably one of the most significant challenges with starting a business on-reserve comes from the legislative and regulatory restrictions of the *Indian Act*.

The *Indian Act* has an enormous influence on "taxation, housing, land titles, property transfer, education, borrowing, land servicing, and many other aspects of the financial activities of individuals, businesses, and institutions operating on-reserve".[92] However, numerous authors and key stakeholders have noted that section 89 of the *Indian Act* has unintentionally presented the largest challenge to

[89] It should be noted that Indigenous and Northern Affairs Canada recognizes just over 600 First Nations communities in Canada. Source: Indigenous and Northern Affairs Canada. *First Nations People in Canada.* https://www.aadnc-aandc.gc.ca/eng/1303134042666/1303134337338
[90] Source: Statistics Canada. "Canadian Business Patterns, December 2015 Location Counts by CSD, NAICS-4 and Employment Size Ranges (9 Standard) in Beyond 20/20 Format."
[91] Source: Statistics Canada. "2011 National Household Survey."
[92] Source: Collin, D. *Aboriginal Financial Literacy in Canada: Issues and Directions.*P. 10

facilitating financial services on-reserve.[93] This section, which was put in place to prevent the seizure of First Nations property, states that property located on a reserve, such as housing, "is not subject to charge, pledge, mortgage, attachment, levy, seizure, distress or execution"[94] by anyone other than an "Indian or a Band".

As a result, financial institutions, such as banks, are unable to seize property on-reserve - which makes it extremely difficult for entrepreneurs to secure loans as they are unable to use on-reserve assets as collateral.[95] Section 89 has, unsurprisingly, negative affected mainstream lenders' willingness to provide financing to individuals located in First Nations communities. As a result, First Nation entrepreneurs face significant barriers to seizing opportunities while, at the same time, investors are being deterred from helping to realize the benefits of Aboriginal economic development.[96]

Section 89 of the Indian Act

"Restriction on mortgage, seizure, etc., of property on-reserve

89 (1) Subject to this Act, the real and personal property of an Indian or a Band situated on a reserve is not subject to charge, pledge, mortgage, attachment, levy, seizure, distress or execution in favour or at the instance of any person other than an Indian or a Band."

Source: Department of Justice, Government of Canada. *Indian Act (R.S.C., 1985, C. I-5).*

Moreover, First Nations governments, which are large employers of Aboriginal individuals, are limited in their ability to raise revenue. While these governments are potentially able to collect property taxes under section 83 of the *Indian Act* and the *First Nations Fiscal Management Act*, their authority depends on various federal approvals and conditions.[97] As of 2014 less than one-in-five First Nations communities were collecting property taxes.[98]

First Nations Fiscal Management Act

"The *First Nations Fiscal and Statistical Management Act* came into force on April 1, 2006 and was renamed the *First Nations Fiscal Management Act* (FNFMA) on April 1, 2013. It is an optional piece of

[93] See for example: Martin, K. *Deepening Relationships: Programs to Overcome Challenges for Aboriginal Peoples and the Credit Union System.* Ottawa: Credit Union Central of Canada, 2011.; Standing Senate Committee on Aboriginal Peoples. *Sharing Canada's Prosperity - A Hand up, Not a Handout.* Ottawa: Government of Canada, 2007.; Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 025, May 27, 2014) 41st Parliament, 2nd Session.* Ottawa: Government of Canada, 2014.; Public Policy Forum. *Improving Access to Capital for Canada's First Nation Communities.* Ottawa: Public Policy Forum, 2016.; and Sisco, A., and N. Stewart. *True to Their Visions: An Account of 10 Successful Aboriginal Businesses.* Ottawa: The Conference Board of Canada, 2009.
[94] Source: Department of Justice, Government of Canada. *Indian Act (R.S.C., 1985, C. I-5).* July 15, 2016. http://laws-lois.justice.gc.ca/eng/acts/i-5/page-12.html#h-36
[95] Source: Standing Senate Committee on Aboriginal Peoples. *Sharing Canada's Prosperity - A Hand up, Not a Handout.* P. 32
[96] Source: Sisco, A., and N. Stewart. *True to Their Visions: An Account of 10 Successful Aboriginal Businesses.*P. 7
[97] Source: Public Policy Forum. *Improving Access to Capital for Canada's First Nation Communities.* P. 10
[98] Source: *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 025, May 27, 2014) 41st Parliament, 2nd Session.* P. 2

legislation that was designed to promote the continued economic development of participating First Nations.

While all First Nations have the authority to pass by-laws related to the taxation of land under the *Indian Act*, the FNFMA offers an alternative and rigorous authority for First Nations to collect property tax."

Source: Indigenous and Northern Affairs Canada. *First Nations Fiscal Management Act.*

Beyond the restrictions brought in place by the *Indian Act*, entrepreneurs located in rural or remote reserve are often additionally hampered by being far from large markets (such as urban centres). CCAB's 2011 Aboriginal Business Survey found that Aboriginal small business owners primarily operated in their own community and other parts of the territory/province.[99] Intuitively, the farther a business is away from large customer bases, the more difficult it will be to access a diversity of customers and investors. The increase in internet usage over the years has made it easier to connect with customers and investors located far distances from business owners, but, as shown earlier, many Aboriginal entrepreneurs do not seem to use the internet to conduct transactions. Moreover, due to limited supply chains and human resource constraints, entrepreneurs in rural and remote reserves often have a limited range of products and services that they can offer compared to their peers located in urban centres.[100]

As noted earlier, reserves also feature few financial institutions. The distance between most on-reserve Aboriginal entrepreneurs and mainstream banks or other financial institutions can itself present challenges.

Finally, on-reserve entrepreneurs face several structural barriers noted earlier, including high unemployment and low income (which limits one's ability to save), as well as lower educational attainment often affected by distance and infrastructural challenges (e.g. many individuals would have to travel far distances to access post-secondary education such as business training opportunities).

Rural

Rural areas can be thought of as those outside of urban population centres. They include small towns with populations of less than 1,000, agricultural lands, and rural areas of census metropolitan areas, as well as remote[101] and wilderness areas.[102]

The 2011 National Household Survey reported there were 12,320 self-employed Aboriginal people living in rural areas. Of this group, 59 per cent were Métis, and 34 per cent were First Nation. It is more difficult to calculate the range of rural Aboriginal SMEs as they are underrepresented in all the relevant Canadian survey research. That being said, there are high concentrations of self-employed individuals in

[99] Source: Canadian Council for Aboriginal Business. *Promise and Prosperity: The Aboriginal Business Survey.* P. 15
[100] Source: Sisco, A., and N. Stewart. *True to Their Visions: An Account of 10 Successful Aboriginal Businesses.* P. 18
[101] For the purpose of this report, we will differentiate the challenges of remote areas from rural where possible.
[102] Source: Statistics Canada. *Rural Area (RA).* December 27, 2015. https://www12.statcan.gc.ca/census-recensement/2011/ref/dict/geo042-eng.cfm

construction (19.5 per cent of overall self-employed in rural areas) and agriculture, forestry, fishing and hunting (19.0 per cent).[103] The available research literature in Canada confirms a number of economic trends reflected in our data, namely that agricultural practices are prevalent.

Rural Challenges

Although rural Aboriginal entrepreneurs do not generally have to contend with the *Indian Act* they still face several challenges. Similar to their on-reserve peers, rural entrepreneurs are often far distances from large urban markets and supply chains.

Furthermore, many rural Aboriginal communities lack basic financial services infrastructure, such as physical banks[104]. Beyond their limited physical presence, mainstream financial institutions are also often disinclined to provide loans to small businesses in outlying rural areas.[105]

Finally, Aboriginal communities located in rural locations face similar structural challenges (e.g., employment, income, and educational challenges) as many on-reserve populations.

Northern and Remote

Although the number of self-employed Aboriginal people is much smaller in the territories than in the provinces, their proportions are greater due to the smaller total number of self-employed in these Northern regions. This is especially the case for Nunavut and the Northwest Territories, where Aboriginal self-employed individuals constitute 64 and 25 per cent of their respective total self-employed populations, despite their total numbers being in between 200 and 400 people (255 for Nunavut, and 335 for NWT).[106] Aboriginal self-employed individuals in the territories tend to be concentrated in arts, entertainment and recreation businesses, as well as in construction businesses.

Efforts to represent the number of self-employed in remote Aboriginal communities is more difficult outside of the territories, as the 2011 NHS data do not have a category for remote. Rather, the NHS groups remote with rural areas.

The literature confirms a number of economic trends reflected in our data. For instance, a report by the Nunavut Department of Economic Development and Transportation from 2007 noted that, at the time, roughly 20 per cent of the Territorial work force operated in the arts sector.[107] Many of these artisans are small scale and unincorporated business operators. Moreover, in the territories, many of the construction and services are tied to community interests in major projects (such as mines, or investments in infrastructure). As a result, there are several community-owned enterprises that are dependent on subcontracts under major projects (primarily within the resource sector).

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[103] Source: Statistics Canada. "2011 National Household Survey."
[104] Source: Collin, D. *Aboriginal Financial Literacy in Canada: Issues and Directions.*P. 22
[105] Source: Fulton, M., and D. Pohler. "Co-Operative Development in Rural and Aboriginal Communities." P. 36
[106] Source: Statistics Canada. "2011 National Household Survey."
[107] Source: Department of Economic Development and Transportation. *Nunavut Sanaugait: A Strategy for Growth in Nunavut's Arts and Crafts Sector.*P. 5

Northern and Remote Challenges

Access to capital has been particularly difficult in Northern and remote Canada where the geographic and economic isolation of communities has limited the presence of financial institutions. As late as 2004, Canada's major banks were only available in three communities in Nunavut - Iqaluit, Rankin Inlet, and Cambridge Bay.[108] Even today, many communities across the north have limited access to financial service providers. This has a marked impact on an individual's ability to access credit, and, moreover, limits an individual's ability to save (which in turn can result in lost income). As discussed earlier, a lack of interaction between individuals and financial institutions can aggravate financial literacy and capability challenges.

Aboriginal populations in Northern communities also face significant structural challenges; notably the territories face high literacy and numeracy challenges compared to the provinces.[109]

Finally, due to the nature of the opportunities in the North, and in remote areas, many Aboriginal businesses are reliant on being able to acquire contracts and subcontracts under major projects (many of them in the resource sector).

Urban

As it stands, more Aboriginal people live in Canada's urban centres than on-reserve.[110] In particular, there has been a substantial increase in urbanization for Aboriginal peoples in western Canada.[111]

Along this line, the 2011 National Household survey reported that a majority of self-employed Aboriginal people resided in urban population centres[112]. Of this group of 22,540 self-employed, 52 per cent were Métis, and 42 per cent were First Nation.[113] While about 7,740 lived in small to medium sized urban centres, 66 per cent resided in larger census metropolitan areas (CMAs) of at least 100,000 people.

Aboriginal self-employed individuals are also less concentrated by industry in urban areas. Nevertheless, the top two industry sectors in urban areas are construction (18.9 per cent of entrepreneurship in population centres) and professional, scientific, and technical services (14.9 per cent).

Urban Challenges

Unlike entrepreneurs located in remote or rural locations, or on-reserve, Aboriginal entrepreneurs have much greater access to banking services in terms of their physical proximity. Moreover, living in urban

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[108] Source: RT Associates Ltd. *A New Financial Institution for Nunavut Feasibility Study.* P. 1
[109] See: The Conference Board of Canada. *Education and Skills in the Territories.* 2014. http://www.conferenceboard.ca/hcp/provincial/education/edu-territories.aspx
[110] Source: Hanselmann, C. *Urban Aboriginal People in Western Canada: Realities and Policies.* P. 1
[111] Source: Hanselmann, C. *Urban Aboriginal People in Western Canada: Realities and Policies.* P. 1
[112] A population centre contains at minimum 1,000 people and no fewer than 400 people per square kilometre.
[113] Source: Statistics Canada. "2011 National Household Survey."

areas allows these entrepreneurs to access a greater diversity of clients, suppliers and mainstream investors than would typically be available in rural or remote locations.[114]

Yet, these urban entrepreneurs face their own structural challenges: according to the 2006 census, the urban Aboriginal population is significantly younger, has a higher proportion of the population with less than a high school diploma, faces higher unemployment and lower income prospects, and has a lower proportion of the population with a university degree than the non-Aboriginal population.[115] Furthermore, Aboriginal individuals in urban centres continue to face discrimination, which can impact their ability to make a successful business in Canada.

Some researchers have observed that, among urban Aboriginal communities "there has been little to no coordinated engagement of [the] Aboriginal middle class to promote entrepreneurship and small business development".[116] However, despite the aforementioned challenges, Aboriginal entrepreneurism is on the rise in urban areas, and it appears to share some of the community-oriented values we discussed earlier. A study of Aboriginal entrepreneurs based in Toronto found that these individuals defined success more broadly than the economic benefits arising for business; in fact success included many social aspects including the ability to give back to one's community.[117] The study, which looked at success factors for Indigenous businesses in urban areas, also identified financial service preferences, finding that roughly one-in-five of the respondents used assistance provided by an Aboriginal Capital Corporation, and roughly forty per cent used assistance from Aboriginal Business Canada (a program previously run by Indian and Northern Affairs Canada, and which has been decentralized into several components delivered by AFIs and NACCA).

It has been noted that urban Aboriginal entrepreneurs rely on systems of support networks that assist them with their business and overall life responsibilities.[118] For instance, entrepreneurs located in Toronto found that diverse social networks (i.e., ties with both Euro-Canadian and Indigenous individuals) and participation in voluntary associations support entrepreneurs in their efforts.[119] Notably, the study found that many Aboriginal entrepreneurs create social links, or bridges, to their rural or remote home communities, while still accessing the mainstream opportunities available to them. This in turn helps to strengthen economic ties between Aboriginal families and businesses across urban and rural/remote divides.

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[114] Source: Côté, R. "Networks of Advantage: Urban Indigenous Entrepreneurship and the Importance of Social Capital." In *Well-Being in the Urban Aboriginal Community.* P. 79

[115] Source: Indigenous and Northern Affairs Canada. *Fact Sheet - Urban Aboriginal Populatoin.* September 15, 2015. https://www.aadnc-aandc.gc.ca/eng/1100100014298/1100100014302

[116] Source: Ontario Federation of Indian Friendship Centres. "Urban Aboriginal Labour Force and Training Strategic Framework: Identifying Our Potential." P. 15

[117] Source: Côté, R. "Networks of Advantage: Urban Indigenous Entrepreneurship and the Importance of Social Capital." In *Well-Being in the Urban Aboriginal Community.* P. 76

[118] Source: Urban Aboriginal Knowledge Network. *Literature Review on Urban Aboriginal Peoples.*P. 24

[119] Source: Côté, R. "Networks of Advantage: Urban Indigenous Entrepreneurship and the Importance of Social Capital." In *Well-Being in the Urban Aboriginal Community.* P. 96

Section Four: Discussion

How Adequate Are Current Financing Solutions for Aboriginal Entrepreneurs?

In order to better understand the various financing options available for Aboriginal entrepreneurs and business owners, this section will discuss the financing institutions that have a role in Aboriginal business financing, the financing that they provide, and the challenges that these institutions face in providing their services, followed by a discussion of the issues around access to credit and the financing solutions in general. An emphasis will be placed on the AFI network, NACCA, and BDC, including a discussion of the financing options they offer, and the challenges that they face. Following this, we will summarize the major challenges discussed.

National Aboriginal Capital Corporations Association

NACCA's membership, as outlined in Module 1, consists of 54 Aboriginal Financial Institutions (AFI) comprised of Aboriginal Capital Corporations, Aboriginal-controlled Community Futures Development Corporations, and Aboriginal Development Lenders.

Aboriginal Financial Institutions

There are three types of AFIs: Aboriginal Capital Corporations, Aboriginal Community Futures Development Corporations, and Aboriginal Developmental Lenders. Although they all support Aboriginal entrepreneurs and business owners, they are institutionally distinct.

Aboriginal Capital Corporations: these organizations deliver business financing, support, and advisory services for Aboriginal business development. Although each ACC differs slightly, they generally offer loan guarantees, operation loans, and technical and advisory services, and are Aboriginal-owned and controlled business lending organizations (offering secured term loans from a revolving loan capital fund).

Aboriginal Community Futures Development Corporations: these organizations provide business development loans, technical support, training and information. The federal government through Industry Canada's regional development agencies funds them.

Aboriginal Developmental Lenders: these organizations provide debt and equity capital as well as business support services (including federal, provincial, and territorial programs). The private sector or Provincial/Territorial Governments funds them.

Source: National Aboriginal Capital Corporations Association, *Aboriginal Financial Institutions,* http://www.nacca.ca/aboriginal-financial-institutions/types-of-afis.

As noted in Module 1, these financial institutions offer various streams of funding, including fourteen AFIs that operate as Program Delivery Partners with Indigenous and Northern Affairs Canada to deliver

business development funding through the Aboriginal Business Financing Program (ABFP). Through this program, AFIs can approve funding up to $99,999 for Aboriginal individuals and incorporated businesses and up to $250,000 for community owned businesses.[120] (See Module 2).

An evaluation of the AFI network, conducted by Industry Canada, found that AFIs positively impact Aboriginal businesses in a variety of ways (including entrepreneurism, access to other sources of funding, and business performance); however, financial and geographic gaps along with ineffective coverage exist in some areas.[121]

The federal government has supported AFIs since the mid-1980s; however, NACCA has noted that "funding has been fragmented because federal agency roles differ by region and support differing types of AFIs with differing funding structures".[122] Moreover, NACCA has noted that fiscal constraints at the federal level have begun to impact the ability of AFIs to assist their clients.[123]

The AFIs provide developmental loans, which are inherently high risk as much of their clientele has little experience running a business, little or no credit, and are operating as start-ups.[124] Due to the high cost of developmental lending, AFIs have historically "operated under an unsustainable business model".[125] To this note, an analysis conducted by NACCA found that 18 AFIs required additional capital in the amount of almost $80 million.[126] As it stands, AFIs generally have a liquidity problem and cannot keep up with the demand.

Given the challenges and costs associated with developmental lending, some AFIs have shifted towards more mainstream lending (away from developmental lending).[127] Moreover, some AFIs have started considering alternative services for their communities, such as the creation of deposit-taking services.[128]

As a means to address some of the capital shortfall, NACCA and several leading AFIs developed the Aboriginal Developmental Lending Assistance (ADLA) program. Through this program, qualified AFIs are compensated for "developmental loan losses and the high cost of developmental loan administration".[129] During 2014-15 (the year ADLA was rolled out) 23 AFIs accessed the ADLA program amounting to nearly $4 million in claims split between 287 on-reserve businesses and 230 off reserve businesses.[130]

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[120] Source: Indigenous and Northern Affairs Canada, *Aboriginal Business and Entrepreneurship Development,* https://www.aadnc-aandc.gc.ca/eng/1375201178602/1375202816581
[121] Source: Industry Canada. *Evaluation of Aboriginal Business Canada's Aboriginal Financial Institutions and Access to Capital Programs.* P. II
[122] Source: National Aboriginal Capital Corporations Association. *Developmental Financing for Aboriginal Business.*P. 3
[123] See: National Aboriginal Capital Corporations Association. *Developmental Financing for Aboriginal Business.*
[124] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 039, May 5, 2015) 41st Parliament, 2nd Session.* P. 7
[125] Source: National Aboriginal Capital Corporations Association. *Developmental Financing for Aboriginal Business.*P. 2
[126] Source: National Aboriginal Capital Corporations Association. *2014-15 Annual Report.* Pg. 9
[127] Source: Ketilson, L. "Partnering to Finance Enterprise Development in the Aboriginal Social Economy." P. S42
[128] Source: Ketilson, L. "Partnering to Finance Enterprise Development in the Aboriginal Social Economy." P. S42
[129] Source: National Aboriginal Capital Corporations Association. *Developmental Financing for Aboriginal Business.*P. 2
[130] Source: National Aboriginal Capital Corporations Association. *2014-15 Annual Report.* P. 3

Moreover, in 2015, NACCA began looking into enhancing loan capital availability through exploring a Capital Attraction Tool that would facilitate access to private sector and Aboriginal capital sources for their developmental lending.[131]

NACCA has also put together a series of best practices in order to facilitate financing solutions with Aboriginal entrepreneurs. These best practices include, amongst others, having a good working relationship with the communities that the Aboriginal Financial Institution serves, and actively operating in pre-and post-loan care.[132]

National Aboriginal Capital Corporations Association Best Practices

"Having a good relationship with the communities an AFI serves can facilitate the implementation of other Best Practices, including:

- Governance: good relations between the AFI and the local community can help AFIs identify and attract qualified directors to the board. It can also facilitate two- way communication with key stakeholders and members, and improve AFI strategic planning through community feedback and input;
- Portfolio Risk Management: good local relations can help AFI staff to build relationships of trust with clients and stakeholders;
- Human Resources: good relations with the local community can also help attract and retain good employees;
- Community Impact and Client Success: good relations between the AFI and the local community can facilitate two-way communication with the community.

Pre- and post-loan care can play a powerful role in reducing the risk an AFI faces and can directly impact the client's potential to succeed by addressing individual client risk pre-emptively and continually."

Source: National Aboriginal Capital Corporations Association. *Best Practices for Aboriginal Financial Institutions.* Ottawa: National Aboriginal Capital Corporations Association, 2006.

Like other financial institutions, the AFIs must find ways to deal with the barriers and challenges summarized in previous sections. For example, those who cater to First Nations must contend with the barriers imposed on-reserve by the Indian Act. In order to overcome these regulatory and legislative barriers, many AFIs will follow a two-part process for communities that manage trusts (or reserves). First, they will obtain a band council resolution that allows an entrepreneur to establish a business on the reserve, and then they ensure the band council resolution allows the AFI access to the trust to recover their losses in the case of a default.[133]

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[131] Source: National Aboriginal Capital Corporations Association. *Developmental Financing for Aboriginal Business.*P. 4
[132] Source: National Aboriginal Capital Corporations Association. *Best Practices for Aboriginal Financial Institutions.* P. 8 and P. 9
[133] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 039, May 5, 2015) 41st Parliament, 2nd Session.*P. 16

Business Development Bank of Canada

As discussed in Module 1, BDC maintains two specialized streams of funding for Aboriginal entrepreneurs including the "Aboriginal Business Development Fund", and "Growth Capital for Aboriginal Business". These services are provided in addition to BDC's mainstream financial services to entrepreneurs and SMEs.

The financing that BDC provides for Aboriginal entrepreneurs does not generally involve annual fees or a client's personal assets as collateral.[134] Moreover, in contrast to their usual 3:1 debt-to-equity ratio, BDC can support up to a 4:1 debt equity ratio for Aboriginal entrepreneurs.[135]

Business Development Bank of Canada

The Business Development Bank of Canada offers two streams of funding for Aboriginal entrepreneurs in Canada.

Aboriginal Business Development Fund
This fund aims to increase capital access for Aboriginal entrepreneurs who would usually not qualify for a loan. The amounts available range from $5,000 to $20,000 with terms varying from two to three years. In order to receive the funds, applicants must agree to take training to increase their management skills and commit to ongoing mentorship. (Training is provided through BDC and partners such as CESO).

Growth Capital for Aboriginal Business
This program involves funds of up to $25,000 for start-ups and up to $100,000 for existing businesses with a provision to donate a percentage of the annual interest to a charitable organization of the client's choice. If entrepreneurs/businesses require greater financing, they can access BDC's other mainstream financing options.

Source: Business Development Bank of Canada. *Aboriginal Business Development Fund.* 2016. https://www.bdc.ca/en/i_am/aboriginal_entrepreneur/pages/aboriginal_fund.aspx; and Busines Development Bank of Canada. *Growth Capital for Aboriginal Business.* 2016. https://www.bdc.ca/en/i_am/aboriginal_entrepreneur/pages/growth_capital_financing.aspx

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Like other banks, BDC faces the challenge that they are unable to leverage lands and assets that belong to First Nation Band members; given this, BDC primarily provides financing on-reserve through loans made to corporations.[136] BDC also relies on mortgage of lease to secure loans when real estate is

[134] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 041, May 12, 2015) 41st Parliament, 2nd Session.* P. 3
[135] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 041, May 12, 2015) 41st Parliament, 2nd Session.* P. 3
[136] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 041, May 12, 2015) 41st Parliament, 2nd Session.* P. 3

involved in the transaction, and they will obtain "band council resolution to ensure that [they] have access to the band lands in the event of default".[137]

Other Financial Institutions

As noted earlier, there are several mainstream banks that offer specialized services for Aboriginal entrepreneurs; however, not many of them appear to advertise specific Aboriginal business banking units.

A review of the major banks in Canada indicated the Bank of Montreal, the Canadian Imperial Bank of Commerce, the Royal Bank of Canada, Scotiabank, and the Toronto-Dominion Bank all have Aboriginal banking units, yet very few have advertised targeted business banking solutions. Often, when one selects the business banking option in the Aboriginal banking sections of these institutions' websites, the system will redirect you to the general business section.[138]

In order to provide for the unique needs of Aboriginal individuals, there are a few smaller but growing institutions operating in this space. For instance, as noted, the First Nations Bank of Canada (which was originally launched by the Saskatchewan Indian Equity Foundation and the Toronto-Dominion Bank) has been expanding its operations in recent years.[139]

Moreover, as previously introduced, there are a growing number of cooperatives that operate in the Aboriginal space. Several authors argue that cooperatives are a good fit for Aboriginal communities as many of their espoused values resonate with of those of the communities. For instance, cooperatives are deeply rooted in their communities, are driven by the needs of their membership, and they contribute to the growth of the community by facilitating business development and the creation of social capital.[140] As of 2012, cooperatives had an estimated 15 per cent of the Canadian SME market (exceeding their overall share in the financial services sector).[141]

As discussed in Module 1, three credit unions that stand out in terms of their work with Aboriginal individuals are the Me-Dian Credit Union in Manitoba, the Caisse Populaire Desjardins system operating in Quebec, and Vancity Credit Union operating in British Columbia. All of these credit unions have operations that focus to some degree on First Nations, Métis and Inuit peoples.[142]

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[137] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 041, May 12, 2015) 41st Parliament, 2nd Session.* P. 3

[138] Source: Scotiabank *Services for Aboriginal Peoples.* 2016. http://www.scotiabank.com/ca/en/0,,287,00.htm; Royal Bank of Canada. *Aboriginal Banking.* 2016. http://www.rbcroyalbank.com/commercial/aboriginal/; Toronto Dominon Bank. *Our Dedication to Diversity.* 2016. https://www.td.com/corporate-responsibility/diversity/aboriginal/customers.jsp; Bank of Montreal. *Aboriginal Banking.* 2016. https://www.bmo.com/aboriginal/en/; and Canadian Imperial Bank of Commerce. *Indigenous Banking.* 2016. https://www.cibc.com/ca/small-business/aboriginal/index.html

[139] Source: Barde, J. "First Nations Bank of Canada Expands its Services to More Communities."

[140] See: Ketilson, L., and K. Brown. *Financing Aboriginal Enterprise Development: The Potential of Using Co-Operative Models.*

[141] Source: Pigeon, M.A. *Exploring the Relationship Between Credit Unions and the Small Business Sector: Facts, Figures and Future Prospects.* P. 12

[142] Source: Me-Dian Credit Union, *About,* http://www.me-diancu.mb.ca/about.; Vancity, *Personal Banking,* https://www.vancity.com/; and Desjardins, *Desjardins. https://www.desjardins.com/.*

Some unique solutions to on-reserve legislative and regulatory barriers have been developed through these smaller financial institutions. A very well known and innovative solution, for example, comes from the Caisse Populaire Kahnawake that developed a trust-deed system in order to provide a greater range of services to their clients (see textbox: **Caisse Populaire Kahnawake**).

Caisse Populaire Kahnawake

The Caisse Populaire Kahnawake was established and opened in 1987, and, as of 2014 served 5,377 individuals in its service area. They are well known for establishing and implementing a trust deed arrangement which acts as their loan security system. This system was created in order to allow people on-reserve to use their immoveable assets (such as lands and buildings) as collateral for loans.

The agreement begins by having a client enter into a trust agreement with trustees who have been chosen out of members of the community. The client transfers their property in trust to these community members, under the knowledge that if the client has to default on Caisse Populaire Kahnawake the trustees would have the authority and would be bound to use the borrower's property to satisfy their debt.

In addition, the Caisse Populaire enters into a trust contract with the trustees who are participating in the system in order to facilitate the lending of money that will be directed towards the social and economic development of Kahnawake. The Caisse Populaire Kahnawake acts as the beneficiary of this contract.

The system is not perfect and does present some weaknesses. Most notably, although it has yet to be challenged in courts, there is a question of the legality of the registration of the trust documents and required transfers. In addition, the trustees chosen from the community must be carefully selected to ensure that they will act objectively. Finally, due to the circumstances of reserves, it is difficult to assess the fair value of an immoveable property located on-reserve.

Yet, considered as a whole, the system appears to work well. In the first ten years of its operation (1987 to 1997) the Caisse supported over eighty business loans worth more than $3 million of activities.

Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 027, June 3, 2014) 41st Parliament, 2nd Session.*; and Ketilson, L., and K. Brown. *Financing Aboriginal Enterprise Development: The Potential of Using Co-Operative Models.*

Beyond the cooperatives that currently exist, there have been discussions among NACCA's stakeholders around the possibility of transitioning several AFIs into cooperatives in order to improve their financial health. However, there are several challenges in establishing a credit union. These include: a lack of understanding of the credit union model from the community perspective; a current environment that is focusing on consolidating financial institutions rather than developing new credit unions; provincial jurisdiction challenges for communities that may want to partner with close-by communities in other

provinces; the initial high costs associated with start up (i.e., capitalization); commercial lending capacity being dependent on the level of total assets; and the fact that the AFIs may have to move away from their model of developmental lending to a more mainstream financial model.[143]

Implications and Opportunities for Innovation

As we have noted, despite the resources available, Aboriginal entrepreneurs and business owners routinely face inadequate access to debt and equity for starting and maintaining operations for their businesses.[144] Aboriginal business leaders have noted that major barriers include a "lack of collateral, legislation prohibiting the use of on-reserve assets as collateral, lack of local financial institutions to work with, and lack of firm profitability".[145] Moreover, although it was noted to a smaller extent than other factors, poor credit ratings have been noted as a barrier to accessing financial services.

As shown, there are significant differences between the challenges faced between entrepreneurs seeking capital on-reserve versus off-reserve. There are also several universal challenges (including structural, financial, and cultural and institutional challenges) that Aboriginal entrepreneurs face across Canada. Many of these challenges will need to be addressed at an institutional level and will require further study before appropriate financial sector responses can be developed.

As noted several times throughout this report, the geographic distance between mainstream financial service providers and rural/remote entrepreneurs presents a challenge. And while there are now multitudes of online banking options, without proper training and adequate financial literacy, their usefulness is limited. Moreover, internet-access is not universally available in Canada, and northern and remote communities continue to face considerable connectivity challenges. A 2014 survey conducted by CCAB of Aboriginal business owners in Canada found that only 8 in 10 Aboriginal business owners have an internet connection, and that this drops down to roughly 6 in 10 when looking at entrepreneurs on-reserve.[146]

Due in part to challenges in accessing credit from mainstream institutions, we believe that predatory lending (as identified in the literature through fringe financial institutions) is a concern, especially for small entrepreneurs who may have limited business experience. Although entrepreneurs may not frequent these institutions on a regular basis, Aboriginal people are overrepresented as their clientele. These institutions do little to support savings or develop good credit, which can impact the potential for greater Aboriginal entrepreneurship.

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[143] Source: Ketilson, L. "Partnering to Finance Enterprise Development in the Aboriginal Social Economy." P. S45-S46

[144] See for example: Heidrick, T., and S. Johnson. *Aboriginal and Minority Entrepreneurs in Accessing Capital - Phase 2: Gap Analysis and Recommendations for Future Research.* Ottawa: Industry Canada, 2002.; Canadian Council for Aboriginal Business,. *Community and Commerce: A Survey of Aboriginal Economic Development Corporations in Ontario.* Toronto: Canadian Council for Aboriginal Business,, 2015.; and Canadian Council for Aboriginal Business. *Community and Commerce: A Survey of Aboriginal Economic Development Corporatoins in Ontario.* Toronto: Canadian Council for Aboriginal Business, 2013.

[145] Source: Heidrick, T., and S. Johnson. *Aboriginal and Minority Entrepreneurs in Accessing Capital - Phase 2: Gap Analysis and Recommendations for Future Research.*P. 12

[146] Source: Canadian Council for Aboriginal Business. *Promise and Prosperity: Ontario Aboriginal Business Survey.* P. 5

Aboriginal individuals in Canada face significant financial literacy challenges that are exacerbated by of the limited availability of financial literacy training in their communities. These challenges are linked to the structural socio-economic conditions that many Aboriginal communities and individuals face, including challenges associated with numeracy, literacy, and problem solving in technology rich environments.

As we have demonstrated, there is a difference between financial literacy and financial capability, and Aboriginal individuals face both challenges. Beyond the lack of financial knowledge, many Aboriginal people in Canada do not have access to good quality financial services and products thus further limiting their ability to participate in the business world. In part, because of this, Aboriginal communities face significant financial health problems that contribute to the limitations they face in accessing financing and fully achieving their economic potential.

These challenges are exacerbated on-reserve by legislative and regulatory conditions that complicate the process of accessing credit. More generally, Aboriginal entrepreneurs in remote and Northern locations face challenges in accessing diverse markets and supply chains. They also face challenges in accessing programming and financing to support their business goals.

When looking for programs and financing solutions for Aboriginal entrepreneurs, individuals can turn to AFIs, BDC, and a roster of other financial institutions (including mainstream banks and credit unions) as well as various government programs. Unfortunately, the diversity of programs and financing options, and their associated conditions and processes, may inadvertently make it more difficult for new entrepreneurs entering the business world. To put it simply:

> "There are many sources of financing including Aboriginal Capital Corporations, Community Futures, Credit Unions and Banks, Aboriginal lenders like All Nations Trust, and Aboriginal Business Canada. There are other government programs; some come and go quickly. Some have money; others don't. Entrepreneurs waste time chasing programs that have no money or no longer exist. They are baffled by the tangle of programs and difficulty in accessing them."[147]

Evidence from CCAB's 2014 survey of Aboriginal business owners in Ontario suggests that many entrepreneurs find it difficult to navigate all of the financing options and may give up on outside financing, opting to rely on their personal savings.[148]

Moreover, a survey of Aboriginal youth entrepreneurs in 2010 found that there was no central point of contact that these individuals could access for financial advice and business development support.[149] The survey also found that this lack of knowledge might come, in part, due to poor marketing to Band Councils.[150]

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[147] Source: McBride, J.E. *Aboriginal Community Economic Development: Overcoming Barriers to Aboriginal Entrepreneurship.* P. 64
[148] Source: Canadian Council for Aboriginal Business. *Promise and Prosperity: Ontario Aboriginal Business Survey.* P. 6
[149] Source: Northern Development Ministers Forum. *Aboriginal Youth Entrepreneurship Success Factors and Challenges.* P. 10
[150] Source: Northern Development Ministers Forum. *Aboriginal Youth Entrepreneurship Success Factors and Challenges.* P. 10

Having an understanding of what funding is available, how one can apply for it, and what an individual has to do to meet the necessary requirements is a necessity for entrepreneurs.

All of the challenges contribute to the financial exclusion of Aboriginal people from the mainstream financial ecosystem. And while these challenges have led to the creation of specialized developmental lending institutions that aim to support Aboriginal entrepreneurs, most prominently the network of AFIs, many of these institutions are facing their own challenges. As noted, many AFIs have historically operated on an unsustainable business model due to the developmental nature of their loans and its dependence on government assisted finance.[151] As a result, industry observers have noted that the social financing that the AFI system provides requires greater inputs, whether it is from public or private enterprises.

[151] See: National Aboriginal Capital Corporations Association. *Developmental Financing for Aboriginal Business*

Section Five: Improving Aboriginal Entrepreneurs' Access to Credit and Lending

Numerous institutions have recognized the potential benefits of improving access to financing for Aboriginal entrepreneurs as well the challenges that these individuals and communities face. Given this, it is not a question of whether or not improving access to financing needs to be a priority, but rather, what concrete steps need to be taken in order to do so.

The Government of Canada noted the need to strengthen Aboriginal entrepreneurship in 2009 when they developed the Federal Framework for Aboriginal Economic Development. The Government of Canada noted that they would work to:

- remove legislative and regulatory barriers that deter business development;
- increase access to debt and equity capital;
- improve procurement opportunities;
- strengthen the capacity of entrepreneurs to succeed in business; and
- accommodate the real needs, conditions and opportunities facing different communities in all regions of the country.[152]

Knowing this, we would like to build on these priorities to provide a holistic perspective on improving Aboriginal entrepreneurs' access to appropriate credit and lending in Canada. As such, this section outlines a number of recommendations that could positively impact the experience of Aboriginal entrepreneurs in accessing start-up financing, as well business owners seeking financing for ongoing operations, acquisitions, and expansion.

Since the vast majority of Aboriginal businesses in Canada are small, unincorporated ventures (acting mostly as sole proprietorships); we have focused our recommendations on ways to target these individuals. We have split our smart practices and recommendations into two sections: practices and recommendations related to improving Aboriginal entrepreneurs' capability to access financing, and practices and recommendations related to increasing available financing.

Improving Aboriginal Entrepreneurs' Capability to Access Financing

In order to improve the conditions that affect how Aboriginal entrepreneurs access lending and financial services, we recommend that federal and provincial governments, as well as AFIs and other financial institutions focus their efforts on:

- Simplifying access to financing;
- Improving financial literacy and strengthening financial capabilities;
- Exploring options for greater micro-loans; and

[152] Source: Indian Affairs and Northern Development and Federal Interlocutor for Métis and Non-Status Indians. *Federal Framework for Aboriginal Economic Development.*P. 13

- Supporting efforts to overcome the financial barriers brought on by the Indian Act (and section 89 in particular).

Simplify Access to Financing

One of the most straightforward suggestions is to find ways to simplify access to financing for Aboriginal entrepreneurs. As we have noted, Aboriginal entrepreneurs and AEDCs have all indicated the need for greater knowledge on how to access financing. Youth entrepreneurs in particular require more supports, as there does not seem to be any central point of information containing dedicated programming and financial services information for youth.[153] Having readily accessible plain language tools that provide information on where to find financing, how one can apply for it, and what an individual needs to meet the necessary requirements would be instrumental. Where possible, the information available in this toolset should provide specifics for various sub-populations including youth and women. This would help fill the information gaps entrepreneurs have noted.

Some regional initiatives have been conceptualized that could help address this. For instance, in Saskatchewan, there have been discussions around establishing a Saskatchewan First Nations Economic Development Network. One of the main services that the network could offer would be to provide its members with Saskatchewan specific information on funding opportunities.[154] Moreover, the network could more generally act as a communication hub for its members.

However, on a more national scale, we believe, like others, that there is a need for an information clearinghouse that "provides First Nations [and other Aboriginal entrepreneurs] with a "one-stop" shop to identify sources of capital (national and regional)".[155] The development of this tool should involve stakeholders from both the private and public sectors, including AFIs, The federal government, and other financial institutions.

Given the challenges associated with internet-access noted in this report, it will be important for relevant information to be available in non-electronic formats. For instance, ensuring economic development officers are well versed in the information available through the tool that could then provide this information to community residents would be a step in the right direction. From a contrasting view, it would be worth considering the use of social media in order to engage and provide information to youth.

Improve financial literacy and strengthen financial capabilities

We believe that improving the financial capabilities of Aboriginal individuals and their communities is vital to increasing their access to financing. Having low levels of financial literacy can impact an individual's ability to access good financial services, and impede the successful operation of their

[153] Source: Northern Development Ministers Forum. *Aboriginal Youth Entrepreneurship Success Factors and Challenges.* P. 10
[154] Source: Saskatchewan First Nations Economic Development Forum. *Building Self-Sufficiency Together: Establishing a Saskatchewan First Nations Economic Development Network.* P. 2
[155] Source: Public Policy Forum. *Improving Access to Capital for Canada's First Nation Communities.* P. 19

businesses. Particularly on-reserve and in remote northern communities, low levels of financial literacy present a significant barrier for Aboriginal businesses, for both their creation and growth.[156]

Moving forward, we suggest that several actions be pursued in order to improve the financial capabilities of individuals and communities. In the immediate financial services environment, we suggest that financial institutions pursue a more concerted effort to link financial literacy and capability development to loans and credit. Such direct linkages could help increase the capacity of Aboriginal entrepreneurs to succeed. Broader efforts should also be undertaken to include components of financial literacy and capability in school curricula and adult education programs. Finally, we recommend that further research on the feasibility of programs aimed at improving the credit ratings of Aboriginal individuals is warranted.

Linking Financial Literacy and Capability Development to Loans and Credit

Financial literacy remains a challenge for many Aboriginal people; especially youth that have not had the opportunity to acquire financial knowledge. For instance, CCAB's 2011 survey of businesses found that nearly 40 per cent of Aboriginal business owners recognized financing, budgets and payrolls, along with cash flow as a challenge to operating their business.[157] Similarly, a survey of BDC's clients found that over a third of Aboriginal clients found financial management and managing cash flows to be a major challenge to their business.[158]

Several programs have been put in place to help address this issue. Most notably, AFIs in Canada, supported by the federal government, have had a significant impact on financial literacy over the past few decades.[159] However, given the resource restrictions placed on the AFI network, in order to increase the impact of their financial literacy training, support will be required to increase the scale of their work.[160] Given this, we agree with The Task Force on Financial Literacy that the Government of Canada should continue to support existing programs by providing financial literacy tools that are culturally relevant, as well as tools and resources to organizations, such as AFIs, that are currently providing these services.[161] Such efforts should also be more broadly linked to financial literacy campaigns in schools and adult education programs.

However, beyond providing financial literacy education, we suggest that there should be a concerted effort to link ongoing financial literacy programs and financial capabilities development to the distribution of loans and credit. This type of practice has been implemented by some institutions in the United States with the goal of improving an individual's ability to effectively manage their finances.[162] For instance, Hunkpati Investments Inc., which operates in the Crow Creek Indian Reservation, offers small loans (up to $2,500) where clients are required to take a financial education class, but also receive

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[156] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 031, February 24, 2015) 41st Parliament, 2nd Session.*P. 4
[157] Source: Canadian Council for Aboriginal Business. *Promise and Prosperity: The Aboriginal Business Survey.* P. 22
[158] Source: Business Development Bank of Canada. "BDC Aboriginal Entrepreneurs Data - Loans and Challenges"
[159] Source: Collin, D. *Aboriginal Financial Literacy in Canada: Issues and Directions.*P. 4
[160] Source: Collin, D. *Aboriginal Financial Literacy in Canada: Issues and Directions.*P. 4
[161] Source: The Task Force on Fiancial Literacy. "Canadians and their Money: Building a Brighter Financial Future." P. 53
[162] Source: Dewees, S. *Building Assets and Building Lives: Financial Capability Programs in Native Communities.*P. 36

financial coaching.[163] (In Canada, BDC offers somewhat similar conditions, developed in partnership with business advisory services such as CESO).

We believe that this is a smart practice that will work to improve the capability of entrepreneurs. For instance, financial literacy training could become a prerequisite to accessing financing for new entrepreneurs; or alternatively ongoing financial capability development could be required during the duration of the loan period. These types of programs allow entrepreneurs to increase their ability to manage their own finances, and build confidence in their capabilities, while not unduly limiting their ability to access financing.

The AFI network has already integrated similar educational programming into their best practices - specifically, NACCA has recognized pre and post-loan care as being instrumental to increasing their clients' chances of success. This stage involves supporting clients to improve their business plans, providing business advices, identifying client issues at an early stage, and working to increase the capacity of clients overall.[164] Evidently, part of this development involves an element of financial literacy. Given this, we suggest that AFIs and NACCA should look into ways of strengthening this type of programming, (and identify effective programming based on results), to ensure ongoing financial literacy and capacity development through the course of the loan.

As with all programming, in order to be effective, programs that integrate financial literacy and capability development to loans and credit should strive to be culturally appropriate and relevant to the unique circumstances and values of client communities. Further exploration of the cultural dimension of effective programs (i.e., programs that link financial literacy and capacity development) would be useful to inform a national policy agenda moving forwards.

Improving Credit

As noted, poor or no credit scores can present challenges for entrepreneurs seeking to access financing. Simply stated, without a credit rating or with a poor rating, interest rates and fees can be substantial, thus dissuading the use of financing.

While there is no publicly available data on credit rating differences between distinct subpopulations in Canada, and summarized at the national level, the evidence synthetized in this report indicates that a poor credit rating impedes an Aboriginal entrepreneur's access to financing. Moreover, Aboriginal individuals appear to be overrepresented as clientele for fringe financial services which often lock their clients into a vicious cycle of poor credit and diminished savings.

While there are several ways to improve credit, we will focus on two recommendations in particular. The first is the need for support and development of programs made to build up credit scores. The second is the need to support innovative programs that aim to better record transactions in Aboriginal

[163] Source: Dewees, S. *Building Assets and Building Lives: Financial Capability Programs in Native Communities.* P. 36
[164] Source: National Aboriginal Capital Corporations Association. *Best Practices for Aboriginal Financial Institutions.* Pg. 95

communities so that mainstream institutions have the reputational information they need to determine a prospective Aboriginal client's level of risk and reliability.

Credit Building Programs

Aside from an INAC sponsored pilot project, discussed below, there is presently no established credit-building program in Canada designed for Aboriginal individuals to address the distinct challenges and circumstances of living in remote areas or on-reserve. That is not to say there aren't programs designed to build credit that Aboriginal individuals can access. For instance, secured credit cards that require a deposit (usually equivalent to the card limit) can be used to be build credit by showing an individual can regularly pay the balance.[165] However, while several institutions have developed initiatives aimed at building up credit in Canada, we believe that there is a need for specific programs for Aboriginal individuals.

There are a few international examples of credit builder programs intended to help individuals improve their credit ratings. These programs provide small sums of money with structured methods of paying them back in order to slowly build an individual's credit score. In some cases, these programs are combined with financial education (see textbox below).

Credit Building Initiatives in the United States

The two programs outlined below are provided to individuals in the United States as a means to improving credit scores for individuals based in two reserves.

Leech Lake Financial Services Credit Builder Loan Program

Leech Lake Financial Services, which serves the Leech Lake Indian Reservation, developed a credit builder loan program that provides loans that average roughly $1,000 per borrower. The loan program is available to tribal employees with payments automatically coming out of their payroll. As collateral, tribal employees can use their vacation days. When the program was developed, Leech Lake Financial Services intended to share their data with credit bureaus with the aim of helping their clients build up their credit scores.

Hunkpati Investments Inc. Credit Builder Program

Hunkpati Investments Inc. Serves the Crow Creek Indian Reservation and developed a credit building program for individuals with no credit and those with past credit problems. The program works by offering individuals up to $2,500 to pay off their debts thus consolidating their debt payments into one low-interest loan. Once the loan is paid off, Hunkpati then reports the successful repayment to credit bureaus. In addition, Hunkpati clients are required to take classes on financial literacy.

Source: Dewees, S. *Building Assets and Building Lives: Financial Capability Programs in Native Communities.*

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[165] Source: Financial Consumer Agency of Canada. *Rebuilding Your Credit.* http://www.fcac-acfc.gc.ca/Eng/forConsumers/lifeEvents/dealingDebt/Pages/Rebuildi-Reacutet.aspx

While these programs have seen some success in the United States, we recommend the first step to implementing a similar program in Canada would be for various stakeholders, including the federal government and AFIs, to conduct a study into the various options and feasibility of such a program and its variations. Such a study would require, at minimum, looking into which institutions have the capability to administer such a program, what level of liquidity would be required to sustain such a program, and what additional costs these programs would have associated with them given their small and developmental nature.

Supporting the Recording of Credit Transactions

As the credit system has evolved, Aboriginal individuals living in remote communities and on-reserve have been excluded to a large degree. For instance, although many First Nations individuals have credit records, the transactions on which they are based are generally fewer in number than what an average credit record typically represents. These limited records often contain more negative data, which may be due to outliers rather than consistent client behaviours.[166]

Forrest Green (a licensed consumer credit reporting agency) argues that one way that First Nations communities, entrepreneurs, and individuals in Canada can work to improve their credit rating is to implement systems to track payments.[167] By reporting transactions that aren't currently being reported individuals will have the opportunity to increase their credit records without substantial additional effort. This essentially works by increasing the presence and visibility of credit.

Indigenous Credit Portal

Over the past few years, the Forrest Green Group (which includes Forrest Green RMC a licensed consumer credit reporting agency) has been developing an Indigenous Credit Portal (ICP) with support from INAC. The goal of the ICP, a web based application, is to help an individual living on-reserve to improve their credit scores by increasing the number of trade lines they have.

Their credit portal works by allowing administrators to update information on good payment history on a monthly basis. This essentially results in a system that reports transactions that aren't currently being reported, and in turn makes these transactions more visible.

The company argues that the benefits of the ICP includes that individuals will establish a credit history independent of their community, which will allow them greater access to banking and borrowing opportunities including access to lower interest rates and fees. For businesses, this means greater access to private lending and credit, as well as access to bonding and independence from the community.

[166] The Assembly of First Nations. *First Nations Social Innovation and Social Finance: First Nation Access to Credit [Webinar].*
[167] The Assembly of First Nations. *First Nations Social Innovation and Social Finance: First Nation Access to Credit [Webinar].*

Source: Parliament of Canada. House of Commons. *Proceedings of the Standing Senate Committee on Aboriginal Peoples (Issue No. 13) 41st Parliament, 2nd Session.;* and The Assembly of First Nations. *First Nations Social Innovation and Social Finance: First Nation Access to Credit [Webinar].*

This type of system presents an innovative solution to the challenge of a poor or no credit rating. And while the initiative is still new, it has shown promise. We recommend that further research and development of these types of programs be taken to demonstrate results and implications for business development.

Explore Options for Greater Micro-Loans

As discussed, many Aboriginal women operate businesses in the service industry and do not require significant amounts of start-up capital; in fact, a study of Métis women entrepreneurs found that a loan of $5,000 to $20,000 would be sufficient.[168] However, anecdotally, many financial institutions "frown on" micro loans as they "tend to be more work than they are worth".[169]

That being said, there are several programs that work towards filing the gap in micro-lending. For instance, BDC offers its Aboriginal Business Development Fund, which is made available through community organizations; the loan itself includes an element of management training and on-going mentorship.[170] Other financial institutions, such as the Community Futures Development Corporation of Central Interior First Nations, have developed micro-lending circles (where they lend a small pool of money to one member of the circle at the time, and once it is repaid they loan the funds to the next member) in order to fill the small business development loan gap.[171]

Given the programs that already exist, we believe that there should be a consolidated effort by the federal government and financial institutions, including BDC and AFIs that already offer these programs, to share information on smart practices, and explore options to increase the availability of these micro-loans. This should include elements of understanding the benefits, including economic and social benefits, as well as the costs and limitations of these programs.

Work around the Indian Act

The Indian Act, as shown in this report, presents several structural barriers to economic development. Most notably, Section 89 of the Indian Act, which restricts the seizure of assets on-reserve, acts as a significant obstacle for entrepreneurs attempting to access financing.

While doing away with the Indian Act may on the surface seem like an optimal solution, it is likely not realistic in the short to medium terms for a number of reasons. Notably, many First Nations communities are "at different and challenging stages of development [and] should be encouraged and

[168] Source: Paul Hanley Consulting. "Strengthening Métis Women's Entrepreneurship: Survey, Review and Analysis." P. 129
[169] Source: Paul Hanley Consulting. "Strengthening Métis Women's Entrepreneurship: Survey, Review and Analysis." P. 129
[170] Source: Business Development Bank of Canada. *Aboriginal Business Development Fund.* 2016. https://www.bdc.ca/en/i_am/aboriginal_entrepreneur/pages/aboriginal_fund.aspx
[171] Source: Community Futures Development Corporation of Central Interior First Nations. *CFDC of CIFN Mico Lending Circles.* http://cfdcofcifn.com/microlending.html

allowed to evolve through a series of steps, based on the level of community readiness, which would gradually get them out from under the strictures of the Indian Act".[172]

Given this, we are going to highlight some suggestions and practices that have been developed to work around the restrictions of the Indian Act. In doing so, we will suggest that there are positive roles for the federal government as well as for financial institutions.

Opportunities for Federal Government

The federal government has developed a series of legislative tools that help to address financial barriers presented by the Indian Act. These include the Fist Nations Fiscal Management Act, the First Nations Land Management Act, the First Nations Commercial and Industrial Development Act, and the First Nations Oil and Gas and Moneys Management Act. Collectively, these acts present "ways for First Nation governments to leverage on-reserve property taxation, own-source revenues, and a strong land base to gain access to capital markets and gain control over financial management as well as lands management".[173]

We believe that the federal government should continue to explore the practical implementation of these Acts, as well as additional policy options to reduce structural barriers that have been created by the Indian Act. In addition, the federal government should strive to make the information around the currently available options as accessible and simple to understand as possible. From a community perspective, a 2009 study found that First Nations communities that participated in the First National Land Management Act all seem to have stronger economic outcomes and are able to make decisions quicker than those whose land is managed by the federal government.[174] However, more importantly, these communities collectively saw a 40 per cent increase in new business by band members, bringing in $53 million in internal investment and almost $100 million in external investment.[175] Given this evidence, more communities should be given the support they need to pursue these optional policies if they so wish.

Our second spotlight falls on the Loan Loss Reserve Program, developed by Indigenous and Northern Affairs Canada in 2008. This program was created to encourage financial institutions to provide financing to First Nations businesses operating on-reserve. The program worked by creating a fund that could be drawn upon to offset a portion of potential losses by financial institutions participating in the program.[176] In 2009, five lenders (the Business Development Bank of Canada, the Assiniboine Credit Union, the Affinity Credit Union, the First Nations Bank of Canada, and the Desjardins Group) were given roughly $18 million in loan loss guarantees.[177] The program faced severe criticism, as AFIs were not involved in the initiative. As it stands, the program is being phased out and no new loans are being made

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[172] Source: Standing Senate Committee on Aboriginal Peoples. *Sharing Canada's Prosperity - A Hand up, Not a Handout.* P. 34
[173] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 025, May 27, 2014) 41st Parliament, 2nd Session.*P. 3
[174] Source: The National Aboriginal Economic Development Board. "Addressing the Barriers to Economic Development on Reserve." P. 21
[175] Source: The National Aboriginal Economic Development Board. "Addressing the Barriers to Economic Development on Reserve." P. 21
[176] Source: Martin, K. *Deepening Relationships: Programs to Overcome Challenges for Aboriginal Peoples and the Credit Union System.* P. 9
[177] Source: Eggerston, L. "Aboriginal Financial Institutions Say Ottawa Undermining Them."

at this time.[178] We believe that the federal government, in conjunction with financial institutions including AFIs, should explore options to create a new program or modify the current Loan Loss Reserve Program so that it would not take away from the competitiveness of AFIs.

Opportunities for Financial Institutions

Some financial institutions have developed innovative strategies to acquire security on loans. As noted earlier, several AFIs will obtain a band council resolution that enables them to access assets on-reserve in the instance of default.[179] Similarly BDC has also relied on band council resolutions to assist them in the case of default.[180] Some smaller financial institutions have already used similar systems. For instance, the Me-Dian Credit Union has in the past worked with band councils in order to allow them to repossess items in the case of default (although these have typically been used for small loans).[181] We believe that there should be further exploration into the feasibility of these systems being scaled up, and utilized by more financial institutions across Canada. Furthermore, it would be useful to explore the feasibility of standardizing approaches to working with Band councils. Any exploration of this should involve an understanding of the costs of implementing different approaches, the potential benefits and associated challenges, along with the additional resources that may be required.

Other innovative solutions, such as those developed by Caisse Populaire Kahnawake (see Textbox: Caisse Populaire Kahnawake), have helped facilitate the financing of Aboriginal entrepreneurs. As noted, within the first 10 years of this initiative, Caisse Populaire Kahnawake were able to support over 80 business loans worth more than $3 million in activities. However, the practices used by the Caisse Populaire Kahnawake have not yet been tested in court leading to uncertainty in the scalability of the process[182]. We recommend that more systematic efforts be taken to investigate the legality, scalability, barriers, and benefits of this type of arrangement.

Increasing Available Financing

Beyond improving an individual's ability to access current financing, the literature strongly suggests that there is a substantial need to increase the amount of financing directed at Aboriginal entrepreneurs and SMEs. Like all financing, there needs to be a strong continuum of lenders that are able to provide for Aboriginal businesses at all stages of development.[183] How this continuum develops, and how Aboriginal businesses move from one stage of financing to another will need to be researched and developed in greater detail. However, given the current focus on Aboriginal businesses in the early stages of

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[178] Source: Garlow, H., interview by K. Pendakur. *Development Officer, Aboriginal Business Development Program (Indigenous and Northern Affairs Canada)*

[179] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 039, May 5, 2015) 41st Parliament, 2nd Session.*P. 16

[180] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 041, May 12, 2015) 41st Parliament, 2nd Session.* P. 3

[181] Source: Martin, K. *Deepening Relationships: Opportunities and Challenges for Aboriginal Peoples and the Credit Union System.* P. 12

[182] At one point the Caisse was challenged in court but they ended up settling the case out of court.

[183] Source: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 039, May 5, 2015) 41st Parliament, 2nd Session.*P. 3

development operating as sole proprietorships, this report will focus recommendations on developmental lending.

Given this, we believe that there should be concerted efforts by federal and provincial governments, as well as AFIs, industry, and other financial institutions to:

- Increase funding for Aboriginal Financial Institutions; and
- Explore opportunities for social financing

Increase Funding for Aboriginal Financial Institutions

As shown earlier in this report, the financial needs of Aboriginal entrepreneurs and businesses are great. In its efforts to meet these needs the AFI network has limited liquidity; and several AFIs have a need for affordable capital beyond what they have available. NACCA has estimated that the AFI network requires $82 million in additional loan capital to fill its current capital gap plus an additional $54 million to accommodate projected growth in lending from 2015 to 2020.[184]

From the government side, federal and provincial governments cannot expect to be able to offer all the services and products needed to fulfill the needs of all Aboriginal businesses. Given this constraint, we agree with other authors that government should support the capacity development of existing AFIs.[185]

Like many others, we believe that this can be done through promoting the self-sufficiency of AFIs by increasing the operating subsidies of these institutions, as well as ensuring that these institutions have the debt and equity capital required to continue operating.[186] It should be noted that steps have already been taken to address this issue. For instance, in 2015 the Government of Canada announced a $62 million contribution to NACCA in order to increase its role in assisting AFIs, and in turn the role of AFIs to support Aboriginal businesses.[187] Given this, we recommend that the federal government and network of AFIs routinely work together to evaluate the needs gap, including an analysis of capital shortfall, in order to address the challenges being faced.

Explore Opportunities for Increasing Social Financing

Social financing can be thought of as the management of resources to provide both a social and economic return. Within this framework, the Canadian Task Force on Social Finance noted in 2010 that there is a need to "more efficiently connect the best people and the most innovative ideas to the private capital they need to tackle complex societal problems, create jobs and strengthen communities".[188] They

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[184] Source: http://nacca-new.editmy.website/downloads/nacca_afi-portrait-2015.pdf
[185] Source: Parker, Z., and V. DeBono. *Aboriginal Access to Capital in Western and Northern Canada: Issues, Obstacles, and Directions.* P. 27
[186] See for example: Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 039, May 5, 2015) 41st Parliament, 2nd Session.;* Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 031, February 24, 2015) 41st Parliament, 2nd Session.;* Standing Senate Committee on Aboriginal Peoples. *Sharing Canada's Prosperity - A Hand up, Not a Handout;* Parliament of Canada. House of Commons. *Standing Committee on Aboriginal Affairs and Northern Development. Evidence. (Issue No. 040, May 7, 2015) 41st Parliament, 2nd Session..*
[187] Source: Government of Canada. *Harper Government Increases Support to Aboriginal Entrepreneurs and Businesses.* June 17, 2015. http://news.gc.ca/web/article-en.do?nid=988569
[188] Source: The Task Force on Social Finance. "Mobilizing Private Capital for Public Good." P. 1

argue that this will help leverage opportunities for investors to participate in opportunities that provide both financial and social and environmental impacts.[189] Following the definition of social finance, it is not a large leap to suggest that developmental lending acts as a form of social financing in Canada as it provides opportunities to develop small and medium sized businesses that arguably have greater local benefits to their communities, including local employment, than what is typically measured in terms of returns on investment.

Given this, we recommend that NACCA should continue to capture the AFIs role in the social economy and investigate the potential to attract social impact investors. In doing so, they can position themselves to increase available funding through partnerships as a force for social investment.

Some work has been completed in this space already. For instance, in 2014, a report commissioned by the Indian Business Corporation came out identifying the need for greater access to capital for developmental lenders.[190] The report highlighted the fact that the needs of industry, including securing a social license, and the challenges that Aboriginal communities face can be met through industry providing capital to developmental lenders.[191]

Moreover, NACCA has already begun looking into ways to increase loan capital availability; in 2015 they explored a Capital Attraction Tool that would "facilitate access to private sector and Aboriginal capital sources for developmental lending".[192]

Given the work that has already occurred, we suggest that there should be a consolidated effort to promote the value of developmental lending for both the businesses that this lending supports and for prospective investors (public and private) that have espoused goals for social impact investing.

[189] Source: The Task Force on Social Finance. "Mobilizing Private Capital for Public Good." P. 1
[190] See: Impakt Corporation. *Social Finance: Unlocking the Potential of Developmental Lending*
[191] See: Impakt Corporation. *Social Finance: Unlocking the Potential of Developmental Lending*
[192] Source: National Aboriginal Capital Corporations Association. *Developmental Financing for Aboriginal Business.*P. 4

Conclusion

As we have shown, Aboriginal entrepreneurs and business owners face several obstacles in accessing financing for start-up, on-going operations, acquisitions, and expansions. Numerous studies have shown that access to capital for Aboriginal entrepreneurs continues to be a substantial barrier. Despite the numerous challenges, we argue that these concerns generally fall under three categories: structural, financial, and cultural and institutional challenges. In addition, we argue that these challenges can vary with business structure and location. In this context we investigated some of the different challenges and preferences of sole proprietorships, both on and of reserve, and in rural, remote, and urban areas. We then compared this prototypical Aboriginal business structure to other small business forms and Aboriginal Economic Development Corporations (AEDCs). Finally, we argued that youth and women face their own special barriers above and beyond those of other entrepreneurs.

We noted that structural challenges are those that relate directly to the conditions and wellbeing of individuals living in Aboriginal communities; for instance, the generally lower levels of employment, educational attainment, and income. These structural challenges need to be recognized before discussing the more direct challenges to Aboriginal entrepreneurship.

Following this, we argued that financial challenges include the limited availability of banking services, a lack of financial literacy and capacity, and the potential threat of fringe financial services. As noted, the major banks in Canada have a limited “on-the-ground” presence in Aboriginal communities, and not all major banks have services specialized for Aboriginal individuals. However, even moving beyond the physical presence of banks to options of online-banking can present challenges when individuals have limited opportunity to grow their knowledge of financial literacy, and have limited access to virtual services because of infrastructural deficits. Combing many factors, we have argued that Aboriginal entrepreneurs in Canada face severe financial capability constraints that need to be addressed by concerted and collaborative action on the part of multiple governments and financial service providers – both Aboriginal and non-Aboriginal.

Moreover, these challenges are exacerbated for entrepreneurs living on-reserve due to regulatory and legislative restrictions. That being said, entrepreneurs living in rural, remote and northern, and urban settings also face obstacles, including their own, and common, structural challenges that need to be addressed.

In many cases, the resources required to support and educate Aboriginal entrepreneurs are simply not available; and insufficient efforts are made to help educate youth about the benefits of financial literacy and capability. This helps to explain why only a minority of Aboriginal start-ups access loans or credit from Aboriginal business lending institutions, government programs, or banks. The majority are not getting the right information they need to make better informed decisions about the financial services available to them.

In this review, we explored how BDC, NACCA, and the network of AFIs help to fill the financing gaps that Aboriginal entrepreneurs and SMEs face, as well as the challenges that they face, including the declining financial health of the AFI ecosystem.

Finally, we have recommended two lines of smart practices and recommendations to be taken to improve the opportunities of Aboriginal entrepreneurs. These include practices and recommendations related to improving Aboriginal entrepreneurs' capability to access financing, as well as those related to increasing the financing available.

In terms of improving entrepreneurs' capability to access financing, we have suggested that there should be concrete efforts by federal and provincial governments, AFIs and other financial institutions to simplify access to financing; improve the financial capabilities of individuals; explore options for greater micro-loans; and support efforts that work to mitigate the legislative and regulatory barriers brought on by the Indian Act. We have argued that these items can be addressed through developing better information products and an information clearinghouse to help entrepreneurs make better informed financial decisions, by exploring options to integrate funding and financial literacy courses, by sharing smart practices amongst financial institutions that offer micro-lending, and by the federal government continuing to explore ways to simplify the legislative and regulatory restrictions imposed by the Indian Act.

Subsequently, we discussed how there should be consolidated efforts by federal and provincial governments, as well as AFIs, private sector, and other financial institutions to increase funding for Aboriginal Financial Institutions and explore opportunities for social financing. To that end various institutions (including the federal government and NACCA) should regularly evaluate the needs gap for affordable capital and operating subsidies. In addition, the network of AFIs and NACCA should strive to better promote their role as financial institutions and business service providers and signal to prospective investors (e.g., investors from government, social finance, and the private sector) how their contributions to Aboriginal business development can make a substantial social impact alongside a reasonable economic return.

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