RESEARCH MODULE 2

The impact of developmental finance on Aboriginal Entrepreneurship and Economic development in Canada: Insights from NACCA and BDC.

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

Report prepared by:
The Conference Board of Canada - Northern and Aboriginal Policy

Submitted: February 14, 2017

Table of Contents

Introduction

Canada's Aboriginal economy is on a path of growth. In terms of size, TD Economics has estimated that the combined income of Aboriginal household, business and government sectors was in between $30 and $31 billion in 2016, up from an estimated $24.3 billion in 2011, $18.9 billion in 2006, and $11.68 billion in 2001.[1] In recent times, the global downturn in natural resources sectors has significantly tapered growth – and declines may continue over the forseeable short and medium terms. Yet, looking more deeply at the economic potential of Aboriginal communities and businesses, TD and other observers, including The Conference Board of Canada, the Macdonald-Laurier Institute, and Canadian Council for Aboriginal Business, continue to be optimistic about the economic prospects of Canada's Aboriginal communities and businesses[2].

The regional economic impacts of Aboriginal community earnings and related spending could also be greater than we realize. For example, a 2016 study sponsored by the Atlantic Policy Congress concluded that the combined annual impact of Atlantic First Nations businesses, governments, and households, was on the order of $1.14 billion. The study found that the combined economic impact of Band, community, organizational, and business spending, among Atlantic First Nations alone, created more than 16,700 full time equivalent employment positions and contributed $184.5 million in overall tax revenues[3]. With such broader considerations of impact in mind, the Canadian Council for Aboriginal Business recently suggested that Aboriginal businesses contribute more than $13 billion a year to Canadian GDP[4]. Clearly, the relationship between Aboriginal business and economic development in Canada is a positive one that needs to be better understood. It presents opportunities for investment, wealth creation, and for broader socio-economic impact.

The need to look more broadly also raises the question of what is an Aboriginal business – given that so much more is going on beyond the narrowly defined range of Aboriginal self-employment. Many Aboriginal communities now pursue a variety of business ventures: e.g., taking stakes in major resource projects, investing in funds and partnerships, and providing a range of goods and services to local and export markets. Indeed a recent study, based on INAC data, estimated that the own source revenues of First Nations governments alone, amounted to over $3.3 billion in 2013/2014[5]. Furthermore, according to TD Economics research, the value of yet-to-be-settled comprehensive and specific land claims could

[1] Source: Gulati, S., and D. Burleton. *The Long and Winding Road Towards Aboriginal Economic Prosperity*. Toronto: TD Economics, 2015. https://www.td.com/document/PDF/economics/special/AboriginalEconomicProsperity.pdf; and Gulati, S., and D. Burleton. Estimating the size of the Aboriginal Market in Canada. Toronto: TD Economics, 2011. https://www.td.com/document/PDF/economics/special/sg0611_aboriginal.pdf

[2] http://www.macdonaldlaurier.ca/building-on-aboriginal-success-in-natural-resource-sector-employment-mli-paper-by-ken-coates/; https://www.ccab.com/research/ccab-research-series/promise-and-prosperity/promise-and-prosperity-2016/

[3] http://www.apcfnc.ca/images/uploads/APCFNC_Economic_Impact_Media_Release_April_27_2016_1.pdf

[4] http://www.theglobeandmail.com/report-on-business/rob-commentary/gateway-decision-confirms-modern-expectations-for-aboriginal-development-projects/article30826455/

[5] https://www.fraserinstitute.org/sites/default/files/government-spending-and-own-source-revenue-for-canadas-aboriginals.pdf

yield a total of $9 to $13 billion for Aboriginal communities[6]. With these various sources of revenue, Aboriginal communities are seeking to leverage their growing asset bases in pursuit of business development. Moreover, for many, the pursuit of business is closely tied to public policy objectives and community economic development. They want their business activities to support the growth and wellbeing of their members and surrounding regions.

The future looks promising for Aboriginal business growth in Canada. Despite current turmoil in the global economy, the longer term macroeconomic picture is favourable. The Conference Board of Canada predicts that Aboriginal communities and businesses are poised to benefit from an expected wave of major project investments over the coming decade, totalling over $342 billion in the natural resources sector alone[7]. But to have a fair chance of meeting these opportunities squarely, Aboriginal businesses must have appropriate financing tailored to their unique needs and realities. Despite their potential for growth, most Aboriginal businesses continue to be small sole proprietorships that have significant constraints on lending and equity participation. Many continue to be in a wealth creating, capacity building, developmental phase; and this requires special attention from the financial services sector.

As we will investigate more deeply in this present report, Aboriginal entrepreneurs and community-owned SMEs alike work with many of the same financial institutions that specialize in Aboriginal developmental finance. The diverse field of service providers includes the Business Development Bank of Canada (BDC), and a range of Aboriginal Financial Institutions (AFIs), from Aboriginal Capital Corporations to Community Futures Development Corporations. Increasingly, private sector banks have taken a greater interest in Aboriginal business development; but the field is still largely the purview of specialized developmental lenders associated with the National Aboriginal Capital Corporations Association (NACCA) and the broader network of AFIs.

Developmental finance is a general term for financing approaches that specialize in serving entrepreneurs and SMEs who would typically be passed over by conventional banks. The number one impediment that developmental finance seeks to work around is limited client equity. Developmental finance often involves specialized risk assessment, business support, capacity building, and (though not exclusively) government-assisted financing. In more recent years, this approach has become associated with global trends in microfinance, and a broader social finance movement that measures businesses, not simply in terms of their net worth and returns to shareholders, but also in terms of their social and environmental value to communities and society. That broader perspective of value resonates with many of Canada's Aboriginal entrepreneurs, SMEs, and their communities and customers. It also informs the mission of many of the AFIs who serve them.

The AFIs have a long history of economic activity that dates back to the earliest Aboriginal Capital Corporations of the 1980s[8]. Since 1985 they have generated well over 42,000 loans totalling more than

[6] https://www.td.com/document/PDF/economics/special/sg0612_aboriginal_myth.pdf
[7] See: http://www.conferenceboard.ca/e-library/abstract.aspx?did=7651
[8] The concept of government-assisted finance for Aboriginal business is itself older, and dates back to programs such as the Indian Economic Development Fund of the 1970s and Native Economic Development Program of the 1980s. See NACCA: http://www.nacca.ca/downloads/2011-afi-report-825-kb.pdf

$2.3 billion, and maintain a current gross loan portfolio of $330 million. AFI developmental finance is still largely possible, however, thanks to non-repayable government contributions that help lift client equity, and absorb the developmental lenders' exposure to risk. In Canada, federal equity programming, in particular, has enhanced loan capital preservation for future Aboriginal entrepreneurs. The AFIs, in turn, have sought to maintain a viable financial ecosystem. Although the risk they take on is generally much higher than for conventional commercial lenders, their historical default rate was 5.2 per cent in 2016 and falling. To date, the repayment of AFI loans has surpassed $1.8 billion.

Recent research suggests a double standard for Aboriginal developmental finance in Canada. More generally, the ecosystem of government-assisted finance is critical to a variety of sectors in the Canadian economy, from high-technology to culture, whether in the form of grants and contributions, guarantees and loan-loss reserves for loans, or tax incentives for venture capital and private equity[9]. Yet, as the Public Policy Forum (PPF) has summarized, "while assisted financing rose in the mainstream economy between 1975 and 2003, it fell during the same time period for First Nation and Inuit businesses". According to the PPF, at least $700 million in new assisted financing is required to close the gap between mainstream Canada and First Nation and Inuit populations[10].

NACCA data suggest that the gap is widening. Recently, reductions to Indigenous and Northern Affairs Canada's Business Capital and Support Services from 2012-13 to 2014-15 decreased actual expenditures by more than $17 million or 31 per cent: from around $55 million in 2012-13 to under $38 million in 2014-15. This shortfall in direct government contributions has left several AFIs with an urgent need to scale back their lending activities.

Such challenges indicate that equity participation is a major concern for AFIs and for the Aboriginal entrepreneurs and SMEs they cater to. Yet, not everyone is in the same boat, and some AFIs are looking to shift the focus of their developmental lending. As the portfolio of Aboriginal businesses across Canada grows, matures, and diversifies, it signals a need for diverse and scalable financing options. This has led Canada's leading banks, and in particular, the Business Development Bank of Canada[11] to establish their own Aboriginal banking services. BDC for example, provides a range of developmental finance services that do not involve direct government contributions. In other examples, the banks have also partnered with AFIs, as in the case of TD Bank's partnership with the Saskatchewan Indian Equity Foundation (SIEF), in the 1990s, which led to the formation of the First Nations Bank of Canada (FNBC), the first Canadian bank to be independently controlled by Aboriginal shareholders.

While many AFIs remain dedicated to a regional clientele of small entrepreneurs and SMEs, others are seeking out ways to grow their range of services and reduce the role of government-assisted financing. These AFIs are helping Aboriginal businesses, often community-owned and operating in the natural resources sectors, to attract additional financing and private equity. They are also advising Aboriginal businesses on how to successfully negotiate buyouts and engage in joint ventures and limited

[9] https://www.ppforum.ca/sites/default/files/Getting%20Together%20-%20First%20Nations%20and%20Capital%20Markets.pdf
[10] Ibid., p. 11.
[11] BDC is a Crown corporation of the federal government.

partnerships. At the same time, Aboriginal trusts and related investment funds are looking for opportunities to invest in the Aboriginal business sector and related economic infrastructure. AFIs have also been busy developing new ways to work together, and with partners like BDC, to make larger loans available beyond the constraints of assisted financing programs. In short, their financial ecosystem continues to develop in response to changing times.

With strong internal and external forces guiding their search for new financing solutions, the financial institutions dedicated to Aboriginal entrepreneurs and SMEs now have a considerable need to review the impacts, opportunities, and trends they've helped to create.

Scope

In Research Module 2 we investigate the impacts and equity participation parameters associated with leading Aboriginal developmental finance services. In particular, we examine custom datasets provided by NACCA, which represent two national scale programs that support AFI developmental finance services:

- The Aboriginal Business Financing Program (ABFP) delivered by AFIs with support from NACCA, focused primarily on capital investment, marketing, business plan development, and business advisory services; and

- The Aboriginal Developmental Lending Assistance (ADLA) program delivered by NACCA, which supports AFIs in recovering some of the costs associated with the provision, management, and repayment of developmental loans.

These two particular programs are used as inputs to our analysis for several reasons. First, they represent the most well-documented national scale programs delivered by AFIs and NACCA; and were selected based on discussions with NACCA managers and staff. For example, while ABFP constitutes approximately one third of the AFIs' total lending activities, the data collected by AFIs and NACCA to fulfill ABFP program requirements allow us to associate industry sectors with business activities and specific amounts of developmental financing. The links to industries, based on the North American Industry Classification System (NAICS), and business activities (such as capital investment versus marketing), are what allow us to investigate economic impacts. ADLA provides a similar level of detail to support our analysis and captures unique insights into the links between developmental finance and local job creation; although it too is only a slice of the actual AFIs' financing activities. In both cases, the impacts of these programs are also tied to government-assisted financing in the form of non-repayable contributions (from INAC and Regional Development Agencies).

The findings from our analysis of these two important programs should therefore not be construed as a definitive account of the general impacts AFIs may have on the Canadian and global economies. Reliable data are simply not available to draw more general conclusions about the AFIs at this time. To date, Canada's AFIs and the broader Aboriginal developmental finance sector have yet to be given the attention they deserve from economic researchers; and our hope is that this study, despite its

limitations, will encourage AFIs and their partners to more actively participate in future economic research and data collection.

As a point of comparison and contrast with these two AFI-delivered developmental finance services, we also examine the national profile of the Business Development Bank of Canada's Aboriginal portfolio, which includes:

- Loans for capital investment;
- Working capital; and
- Information Communications Technology services

Although BDC is a federal Crown corporation, in its case, the loans it provides to Aboriginal businesses are independent of non-repayable contributions; and this dataset provides an additional layer of context to our investigation of Aboriginal developmental finance and its impacts.

Based on these and available secondary data, **Research Module 2** addresses the following set of guiding research questions.

1. What are the direct, indirect, and induced impacts of our focal Aboriginal developmental finance services on the Canadian economy?

2. What does a study of these services reveal about the relevant equity participation parameters that affect the small and medium sized enterprise sector at the Aboriginal entrepreneur and community level?

3. What does a study of these services reveal about the relationship between equity participation, business development, and community economic development (including job creation)?

Economic impact assessment of the focal Aboriginal developmental finance services

The past decade of research, reviewed in Modules 1 and 3, has sought to understand the distribution and size of Aboriginal businesses in Canada, their needs, barriers, and risks. There is now a general understanding that many Aboriginal businesses are growing and taking on more complex transactions, just as others continue to be hampered by equity constraints. Unfortunately, there is comparatively sparse information available about actual Aboriginal developmental finance services and their economic impacts. While some limited regional and industry specific analyses have been conducted, mostly unpublished, Canada-wide profiles of their economic footprint have yet to be attempted.

Several challenges explain the lack of information and research. Given that Aboriginal businesses comprise a small, and still underreported, minority of Canada's overall economic footprint, reliable data on their characteristics and performance are difficult to obtain (see Module 1). The AFIs and other financial institutions that specialize in Aboriginal developmental finance also vary in terms of their size,

scope, and administrative capacities. While NACCA reports on annual AFI lending activities across the country, this reporting is not easily traceable to particular industry sectors, let alone to individual businesses or business clusters in particular regions or locations – whether urban, rural, or remote, on reserve or off reserve.

For the sake of undertaking a country-wide economic impact assessment of several focal Aboriginal developmental finance services, some concessions therefore have to be made to compensate for the lack of empirical data. The lack of detail at the business level, (whether for self-employed entrepreneurs, corporations, or community-owned businesses), requires us to incorporate established economic models and guiding assumptions. In particular, our approach interprets the best available data from NACCA and BDC with help from Statistics Canada's input-output model of the Canadian economy. This approach allows us to make reasonable inferences about impacts at provincial/territorial and national levels and provides a useful framework for exploring patterns in developmental finance. Our aim is not to provide the definitive story of Aboriginal developmental finance in Canada, but to help advance an understanding and appreciation of this vital economic sector. Until more reliable finer-grained information becomes available this is, in our estimation, a reasonable approach to take.

Methodology and guiding assumptions

In the following sections we assess the economic impacts of our focal Aboriginal developmental finance services in terms of the business and industry sector activities they contribute to. This approach outlines the economic footprint of these Aboriginal developmental finance services in the Canadian economy, based on patterns of business activity represented by the Statistics Canada input-output model.

The economic impacts of any business are larger than its direct contribution and its direct network. Given that businesses, and ultimately industries, are linked to one another, economic activity in one industry sector can depend on and trigger economic activity in several others. For this reason, in order to have a full appreciation and understanding of economic impact, the indirect and induced contributions of business activity need to be accounted for in addition to its direct impacts.

The economic footprint of an Aboriginal developmental finance service can therefore be defined as the combined direct, indirect, and induced economic impacts of the business activities it contributes to, where the following definitions apply:

> **Direct impact** measures the value added to the economy by businesses directly producing goods and services in Canada.
>
> **Indirect impact** measures the value that businesses generate through their demand for intermediate inputs[12], or other support services from other firms.

[12] Intermediate inputs are the goods and services (e.g., energy, raw materials, semi-finished goods, and services that are purchased from all sources) that businesses use in their production process to produce other goods or services rather than for final consumption. See BEA: http://www.bea.gov/faq/index.cfm?faq_id=185

Induced impacts are derived when employees of the aforementioned firms (both direct and indirect) spend their earnings, and owners spend their profits. These purchases lead to more employment, wages, income, and tax revenues, and their impact can be felt across the country.

In the following sections we conduct separate economic impact assessments of Aboriginal developmental finance services associated with NACCA, AFIs, and BDC. These analyses were developed in partnership with Statistics Canada's Industry Accounts Division, to establish an economic footprint of Aboriginal developmental finance based on Statistics Canada's input-output model of the Canadian economy.

Statistics Canada's input-output tables serve as benchmarks for the Canadian System of National Accounts. They are the most comprehensive and detailed statistics on transactions involving production activity and intermediate as well as final consumption of goods and services in the Canadian economy. The input-output tables cover all economic activities conducted in the market economies of each province and territory, encompassing persons, businesses, government and non-government organizations, and entities outside its jurisdiction that give rise to imports or exports. When empirical data are lacking we derive reasonable estimates of impacts from this comprehensive model of the Canadian economy.

The input-output model represents the input-output structure of the Canadian economy and describes the flow of goods and services in Canada across various sectors of the economy. This tool is used to simulate and analyze the economic impacts of a change in an industry's output (such as an increase in business activity prompted by loans and government-assisted finance). In addition to estimating the number of jobs associated with a business activity, the input-out model also produces estimates of related impacts on Gross Domestic Product, wages and salaries, and government tax revenue (at the federal and provincial level).

Impacts associated with the Aboriginal Business Financing Program

Through ABFP, AFIs offer non-repayable contributions, to a maximum of $99,000, to eligible Aboriginal entrepreneurs and $250,000 to community-owned Aboriginal businesses (subject to a viable business plan and to other financing being in place). These non-repayable funds can then be matched by a variety of AFI and commercial loans. In most cases they also generally require a client equity contribution.

As part of this modeling exercise NACCA staff created a historical dataset of the loans and government-assisted financing AFIs provided to Aboriginal entrepreneurs and SMEs through the ABFP in fiscal years 2013-2014 and 2014-2015. In addition to featuring information about the general purpose of loans and equity contributions, the dataset also describes the industry sectors involved, along with details on the client's equity participation and matching government contributions.

From the historical dataset, **1,191** cases of developmental loans, non-repayable government contributions, and client equity, valued at **$202 million**, included sufficient information to be incorporated into the impact assessment. Of the total cases included in the impact assessment, **$189.6 million** (or 94 per cent) went to businesses for capital costs associated with establishing or expanding a

business. An additional **$3.9 million** (or 2 per cent) went to businesses for marketing activities; while **$8.5 million** (or 4 per cent) went to businesses for business plan development or business advisory services aimed at improving the client's business plan and capacity. Given that the funds directed at capital investment comprised by far the largest share of ABFP funds and client equity represented in the model, their associated patterns of business activity have the greatest influence on the model's simulation of impacts.

Program data summaries on developmental loans, non-repayable contributions, and equity participation

The patterns of business activity associated with ABFP supported developmental financing fall under four broad categories:

Capital costs to establish or expand a business: Establishing a business refers to capital used to begin a start up venture. Expanding a business refers to capital costs associated with growing an established business. This category does not include the financing of buyouts or business acquisitions, which entail a transfer of ownership rather than the creation or expansion of business activities. In the input-output model this category is refined in terms of 44 investment patterns associated with a business's purchase of machinery and equipment, and/or construction services. These investment patterns combine empirical data from NACCA with guiding assumptions from Statistics Canada's input-output model of the Canadian economy. The guiding assumptions represent how an average business, by industry sector and province/territory, would spread capital costs between the purchasing of machinery and equipment and construction services. At the aggregate level of provincial/territorial and national impacts, these guiding assumptions present reasonable interpretations of business activity, and help us to overcome limitations in the available empirical data.

The associated breakdown of total loans, non-repayable government contributions, and client equity is as follows in Table 1:

Table 1: Breakdown of total loans, non-repayable government contributions, and client equity directed at capital costs, ABFP (2013-2015)

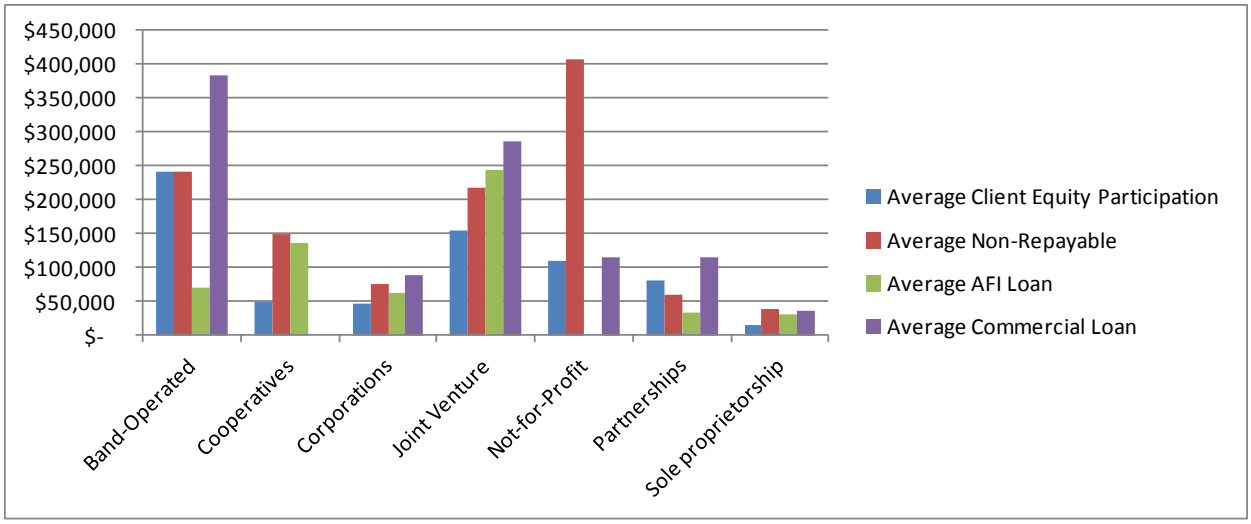
AFI loans	Commercial loans	Non-repayable government		Client Equity	Total
		ABFP	Other		
$35,870,372	$64,734,005	$38,524,415	$13,740,586	$36,760,682	$189,630,059
18.9%	34.1%	20.3%	7.3%	19.4%	

The ABFP dataset also includes information about client business structures. In terms of the distribution of loans, non-repayable contributions, and client equity, 40 per cent involved incorporated businesses, 24 per cent involved sole proprietorships, 23 per cent involved First Nation Band-operated[13] businesses, 11 per cent involved partnerships, and 2 per cent involved other forms such as not-for-profits,

[13] We will also use the term First Nation owned business.

cooperatives, and joint ventures. For each business structure, the comparative value of average loans, non-repayable government contributions, and client equity is as follows in Chart 1:

Chart 1: Average loans, non-repayable government contributions, and client equity directed at capital costs, by business structure, ABFP (2013-2015)



The ABFP dataset also includes locational data about client businesses, whether they are on or off reserve. In this category 55 per cent of loans, non-repayable contributions and client equity involved businesses located on reserve.

Business plan development: business plan development is a pre-investment requirement of the ABFP, whereby all clients must provide a completed business plan to be considered for a non-repayable equity contribution. Some clients draft their own plans; while others, who are not comfortable doing so, can hire a consultant with ABFP funding (thanks largely to federal government contributions). In the input-output model this category is represented in terms of relevant investment patterns associated with management, scientific, and technical consulting services.

The breakdown of loans, non-repayable government contributions, and client equity is as follows in Table 2:

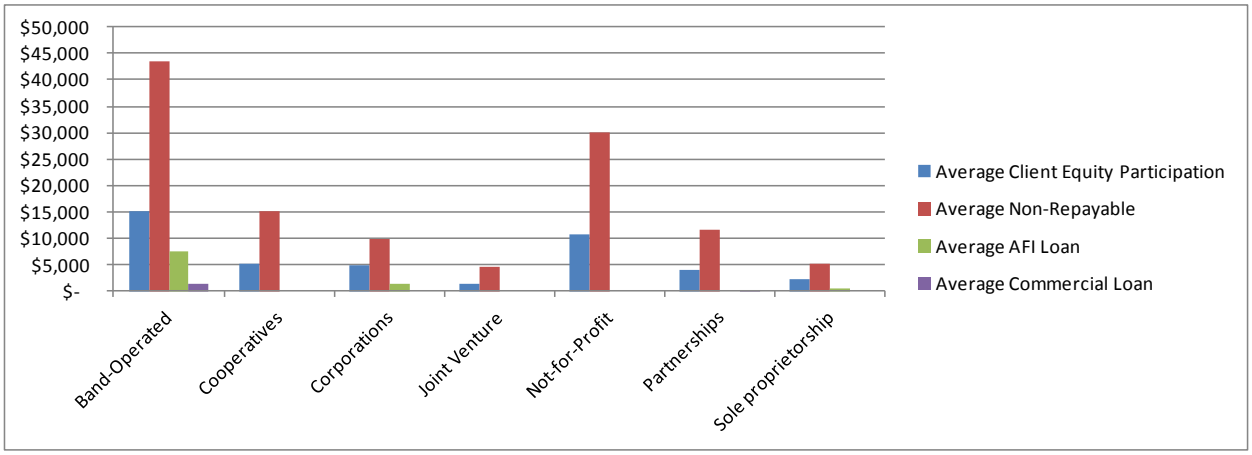
Table 2: Breakdown of total loans, non-repayable government contributions, and client equity directed at business plan development, ABFP (2013-2015)

AFI loans	Commercial loans	Non-repayable government		Client Equity	Total
		ABFP	Other		
$627,825	$93,980	$3,767,623	$749,087	$1,760,977	$6,999,491
9.0%	1.3%	53.8%	10.7%	25.2%	

In terms of client business structure and the distribution of loans, non-repayable contributions, and client equity, 58 per cent involved First Nation Band-operated businesses, 18 per cent involved sole proprietorships, 17 per cent involved incorporated businesses, 6 per cent involved partnerships, and 1

per cent involved other forms such as not-for-profits, cooperatives, and joint ventures. For each business structure, the comparative value of average loans, non-repayable government contributions, and client equity is as follows in Chart 2:

Chart 2: Average loans, non-repayable government contributions, and client equity directed at business plan development, by business structure, ABFP (2013-2015)



Furthermore, in this category 64 per cent of loans, non-repayable contributions and client equity involved businesses located on reserve.

Business advisory services and support: business advisory services and support refers to a post-care or after-care funding support that ABFP offers to most clients (again thanks largely to federal government contributions). For example, a client can request funding to purchase the services of an accountant to cover the cost of setting up their books and first year financial statements; or have a lawyer draft and review contracts; or hire a human resources advisor; or hire a business coach, and so forth. In the input-output model this category is also represented in terms of relevant investment patterns associated with management, scientific, and technical consulting services.

The breakdown of loans, non-repayable government contributions, and client equity is as follows in Table 3:

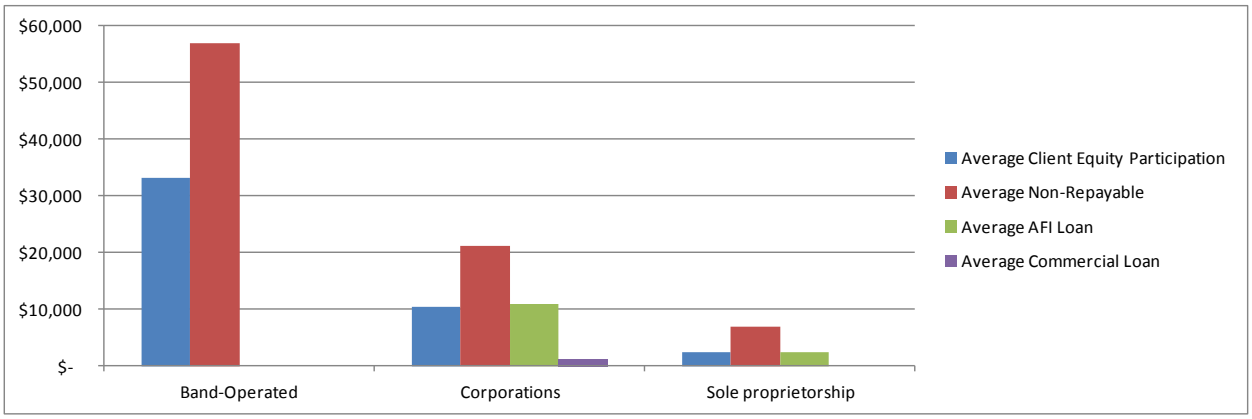
Table 3: Breakdown of total loans, non-repayable government contributions, and client equity directed at business advice and support, ABFP (2013-2015)

AFI loans	Commercial loans	Non-repayable government		Client Equity	Total
		ABFP	Other		
$229,411	$21,988	$812,409	$2,350	$423,076	$1,489,234
15.4%	1.5%	54.5%	0.2%	28.4%	

In terms of client business structure and the distribution of loans, non-repayable contributions, and client equity, 56 per cent involved incorporated businesses, 36 per cent involved First Nation Band-

operated businesses, and 8 per cent involved sole proprietorships. For each business structure, the comparative value of average loans, non-repayable government contributions, and client equity is as follows in Chart 3:

Chart 3: Average loans, non-repayable government contributions, and client equity directed at business advice and support, by business structure, ABFP (2013-2015)



Furthermore, in this category 48 per cent of loans, non-repayable contributions and client equity involved businesses located on reserve.

Marketing: This category of developmental financing goes to support a business' marketing efforts, whether local, domestic, or export oriented. In the input-output model this category is represented in terms of relevant business activity patterns associated with marketing activities (such as advertising, promotion, meals, and entertainment).

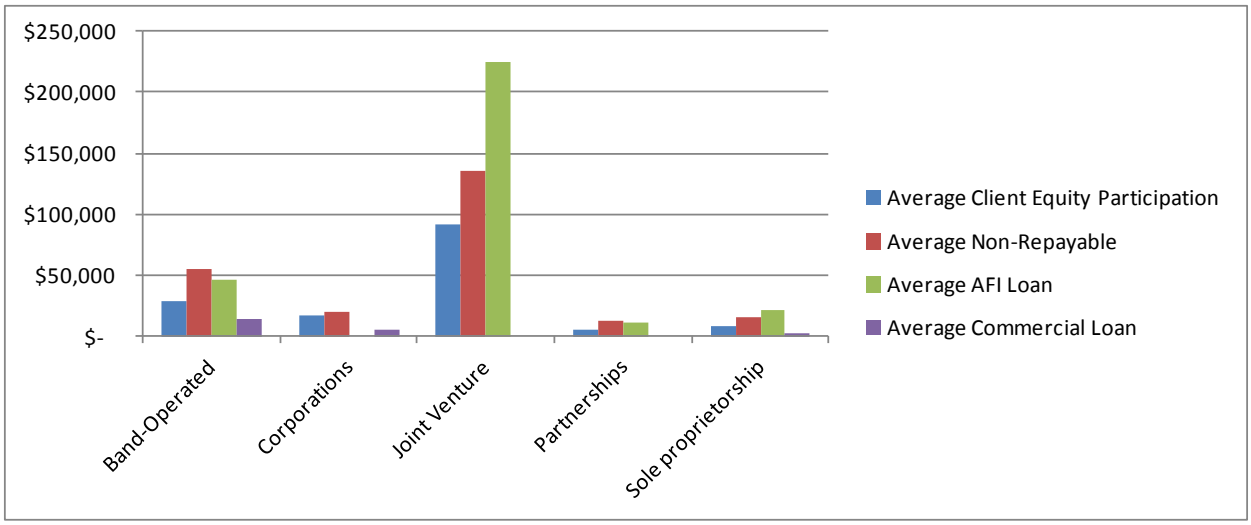
The breakdown of loans, non-repayable government contributions, and client equity is as follows in Table 4:

Table 4: Breakdown of total loans, non-repayable government contributions, and client equity directed at marketing, ABFP (2013-2015)

AFI loans	Commercial loans	Non-repayable government		Client Equity	Total
		ABFP	Other		
$1,230,991	$279,386	$1,462,175	$0	$919,203	$3,891,755
31.6%	7.2%	37.6%	0%	23.6%	

In terms of client business structure and the distribution of loans, non-repayable contributions, and client equity, 33 per cent involved First Nation Band-operated businesses, 31 per cent involved sole proprietorships, 21 per cent involved incorporated businesses, 12 per cent involved joint ventures, and 3 per cent involved partnerships. For each business structure, the comparative value of average loans, non-repayable government contributions, and client equity is as follows in Chart 4:

Chart 4: Average loans, non-repayable government contributions, and client equity directed at marketing, by business structure, ABFP (2013-2015)



Furthermore in this category 51 per cent of loans, non-repayable contributions and client equity involved businesses located on reserve.

ABFP model and impact analysis

Our model of ABFP's related developmental finance services includes several different categories of direct, indirect, and induced impacts that result from the business activity patterns associated with the combination of loans, non-repayable government contributions, and client equity. These include impacts on:

- Gross Domestic Product (GDP) at basic prices;
- Employment; and
- Labour income.

Before proceeding with our interpretation of the results the reader must keep in mind the guiding assumptions that have contributed to this impact analysis. Previously we discussed how the lack of empirical data about the outcomes of developmental finance required that reasonable assumptions be made about how ABFP's business clients spent their associated loans, non-repayable contributions, and equity. These reasonable assumptions are based on information provided in the ABFP dataset for each non-repayable contribution and matching loans/equity, in terms of their size and purpose. This information is then fed into Statistics Canada's input-output model of the Canadian economy. The input-output model then simulates economic impacts by matching the ABFP information with industry specific patterns of business activity associated with capital investment (in machinery and equipment, and construction), and operating expenditures (for marketing, business consulting and related support services, and so forth). The simulation assumes that, at the aggregate level of industries and provinces/territories, a typical Aboriginal business will make capital and operating expenditures similar to a typical Canadian SME. For the purposes of investigating the magnitude of impacts at a national and

provincial/territorial level, this assumption should be reasonable. It does not however, permit us to make finer-grained inferences about regions or locations below this level of detail. The result is a countrywide economic footprint of ABFP's associated developmental finance services.

GDP impacts of ABFP related contributions and loans

Table 5 presents the direct, indirect, and induced impacts of the ABFP dataset's total investments[14] on GDP at basic prices[15]. The results of the economic footprint analysis are broken down in terms of two aggregate investment patterns: capital investment, and marketing and consulting. A total of **$189.6 million** of ABFP related funds (including loans, client equity, and non-repayable contributions) went to capital investment. Of that total, **$123.4 million** was spent on goods produced in Canada, while the remainder primarily consisted of imported goods[16] – such as machinery and equipment, and parts (associated with economic leakage). The impact on GDP is therefore based on this **$123.4 million of capital investment**, and the results are reported in Table 5.

In terms of GDP at basic prices, Table 5 indicates that the direct impact of capital investment under ABFP was over **$56.3 million**, while the indirect impact was over **$40.3 million**, and the induced impact was more than **$31.3 million**. The combined direct, indirect, and induced impact of capital investment under ABFP was therefore over **$127.9 million**. Relative to the total capital investment of **$189.6 million**, these results imply that the simple multiplier[17] for capital investment, including direct and indirect impacts, was **0.51**; while the total multiplier[18], including induced, on top of direct and indirect impacts, was **0.67**. Expressing it differently, for every dollar of capital investment, including loans, client equity, and non-repayable contributions, the ABFP stimulated **$0.67** in GDP.

Table 5: ABFP's GDP impact – Canada wide

	GDP at basic prices (000s)	
Impacts	**Capital investment**	**Marketing and Consulting**
Direct	$56,308	$0[19]
Indirect	$40,336	$9,864
Induced	$31,312	$3,113
Total	$127,955	$12,978

[14] Total investments include loans, client equity, and non-repayable contributions.
[15] GDP at basic prices: Equals GDP at market prices, minus taxes and subsidies on products. GDP at market prices: The gross value at market prices of all goods and services produced by the economy, plus taxes but minus subsidies on imports.
[16] Inventory withdrawals and taxation are additional components of the remainder, although small compared to imports.
[17] Simple multipliers capture the sum of direct and indirect impacts. They are based on the assumption that households are exogenous and that there is no feedback between wages and production.
[18] Total multipliers capture the sum of direct, indirect and induced impacts. Households are treated as endogenous and the payments for labour services, i.e. wages, are redirected in the economy through consumer expenditures.
[19] Direct impact on GDP is zero; however the direct impact on output is $12,380, the total ABFP investment in marketing and consulting services.

In comparison, a total of **$12.38 million** in ABFP loans, client equity, and non-repayable contributions went to business expenditures on marketing and consulting services. Table 5 indicates that the indirect impact of these business expenditures was over **$9.8 million**, while the induced impact was over **$3.1 million**. This means that, for marketing and consulting expenditures associated with ABFP, the combined indirect and induced impact was over **$12.9 million**. Relative to the total expenditure of **$12.38 million**, the simple multiplier for marketing and consulting, including indirect impacts, was **0.80**; while the total multiplier including induced impacts was **1.05**. Expressing it differently, for every dollar of total investment[20] spent on marketing and consulting services, the ABFP stimulated **$1.05** in GDP.

ABFP's employment impact

Table 6 presents the ABFP dataset's impacts on Canada wide employment, again broken down in terms of capital investment and expenditures on marketing and consulting services. Total capital investments associated with ABFP yielded **715 direct jobs**. Furthermore, the economic activity associated with these capital investments corresponds to almost **1,440 jobs** across Canada, including **423 indirect jobs** and **302 induced jobs**. The total jobs multiplier was therefore approximately **0.012 (per $1,000 of direct output)**.

The countrywide employment impacts of associated expenditures on marketing and consulting services were comparatively smaller. The economic footprint analysis indicates that business activities associated with marketing and consulting services correspond to approximately **153** jobs across Canada, including **124 indirect jobs**, and **29 induced jobs**. Here the total jobs multiplier was also approximately **0.012 (per $1,000 of direct output)**.

Table 6: ABFP's employment impact – Canada wide

	Jobs (Full time equivalent)	
Impacts	**Capital investment**	**Marketing and consulting**
Direct	715	0
Indirect	423	124
Induced	302	29
Total	1,440	153

ABFP's labour income impact

Table 7 is closely tied to Table 6 and presents the impacts that total ABFP investments had on labour income in the Canadian economy. The economic footprint analysis shows that business activity associated with capital investments contributed almost **$41.9 million** in direct labour income, followed by an indirect impact of over **$25 million** and an induced impact of more than **$14.7 million**. The total labour income multiplier in this case was therefore **0.66.** In comparison, business activity associated

[20] Total investment includes loans, client equity, and non-repayable contributions.

with expenditures on marketing and consulting contributed a total of **$8.5 million**, broken down into **$7.1 million** of indirect labour income, and **$1.4 million** in induced labour income.

Table 7: ABFP's impact on labour income – Canada wide

	Labour income (000s)	
Impacts	**Capital investment**	**Marketing and consulting**
Direct	$41,868	$0
Indirect	$25,179	$7,092
Induced	$14,774	$1,441
Total	$81,821	$8,533

Insights from the Business Development Bank of Canada's Aboriginal portfolio

BDC's Aboriginal portfolio presents another variation of developmental finance. Compared to the ABFP historical dataset, its approach features several differences. First, it does not include a non-repayable equity component from government contributions. Second, it includes several loan categories that specifically address the working capital requirements of Aboriginal businesses. Like the ABFP, it includes categories for capital costs, marketing, and business consulting services. But it also focuses in on particular kinds of capital investments, with, for example, special loan categories targeting Information Communications Technologies and related services.

As part of this modeling exercise BDC staff created a historical dataset of the loans its offices provided to Aboriginal entrepreneurs and SMEs in fiscal years 2013-2014 and 2014-2015. In addition to featuring information about the general purpose of loans, the dataset also describes the industry sectors involved, along with details on the client's equity participation and any matching commercial loans.

The historical dataset included **333** admissible cases of developmental loans and client equity, valued at **$113.9 million** in total. This total represents cases that had sufficient information to be incorporated into the impact assessment after the modification of cases associated with loan reductions or loan cancellations. Of the total cases, **$87.7 million** (or 77 per cent) went to businesses for capital costs associated with the purchase of machinery and equipment and/or construction services. An additional **$25.1 million** (or 22 per cent) went to businesses for working capital concerns; while **$1.2 million** (or 1 per cent) went to businesses for specialized Information Communications Technology (ICT) services. Given that the funds directed at capital investment comprised by far the largest share of BDC loans, matching loans, and client equity represented in the model, their associated patterns of business activity have the greatest influence on the model's simulation of impacts.

Program data summaries on developmental loans and equity participation

The patterns of business activity associated with BDC's Aboriginal portfolio fall under three broad categories:

Capital costs to establish or expand a business: Establishing a business refers to capital used to begin a start up venture. Expanding a business refers to capital costs associated with growing an established business. This category does not include the financing of buyouts or business acquisitions, which entail a transfer of ownership rather than the creation or expansion of business activities. In the input-output model this category is refined in terms of 39 investment patterns associated with a business's purchase of machinery and equipment, and/or construction services. These investment patterns combine empirical data from BDC with guiding assumptions from Statistics Canada's input-output model of the Canadian economy. The guiding assumptions represent how an average business, by industry sector and province/territory, would spread capital costs between the purchasing of machinery and equipment and construction. At the aggregate level of provincial/territorial and national impacts, these guiding assumptions present reasonable interpretations of business activity, and help us to overcome limitations in the available empirical data.

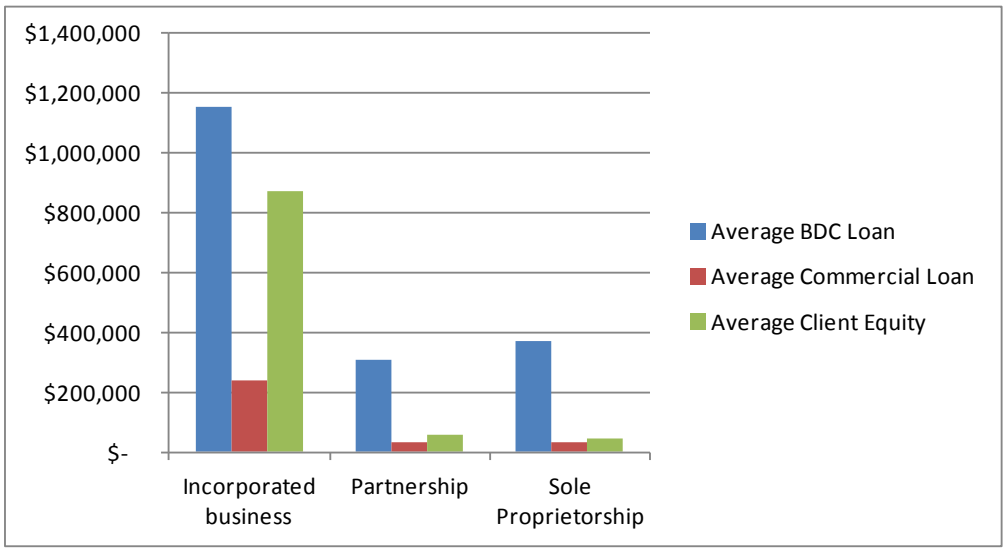
The breakdown of loans and client equity is as follows in Table 8:

Table 8: Breakdown of total loans and client equity directed at capital costs, BDC (2013-2015)

BDC loans	Commercial Loans	Client Equity	Total
$61,110,089	$7,503,193	$19,037,819	$87,651,101
70%	8%	22%	

The BDC dataset includes information about client business structures. In terms of the breakdown of loans and client equity, 45 per cent involved sole proprietorships, 16 per cent involved partnerships, and 39 per cent involved incorporated businesses. For each business structure, the comparative value of average loans and client equity is as follows in Chart 5:

Chart 5: Average loans and client equity directed at capital costs, by business structure, BDC (2013-2015)



The BDC dataset also presents information about the client's Aboriginal identity and location. In terms of the breakdown of loans and client equity, 39 per cent involved a First Nation client on reserve, 23 per cent involved a First Nation client off reserve, 15 per cent involved a Métis client off reserve, 11 per cent involved an Inuit client, 7 per cent involved a Non-status Aboriginal client off reserve, and 6 per cent involved a non-Aboriginal client on reserve.

Working Capital: BDC's loans for working capital include support for marketing activities, business consulting requirements, the reduction of a client's accounts payable, liquidity for growth, product research and development. In the input-output model this category is refined in terms of 61 industry-specific business output patterns. These output patterns combine empirical data from BDC with guiding assumptions from Statistics Canada's input-output model of the Canadian economy. The guiding assumptions represent how an average business, by industry sector and province/territory, would spend working capital on operating expenditures (relevant to details in the BDC loan category). At the aggregate level of provincial/territorial and national impacts, these guiding assumptions present reasonable interpretations of business activity, and help us to overcome limitations in the available empirical data.

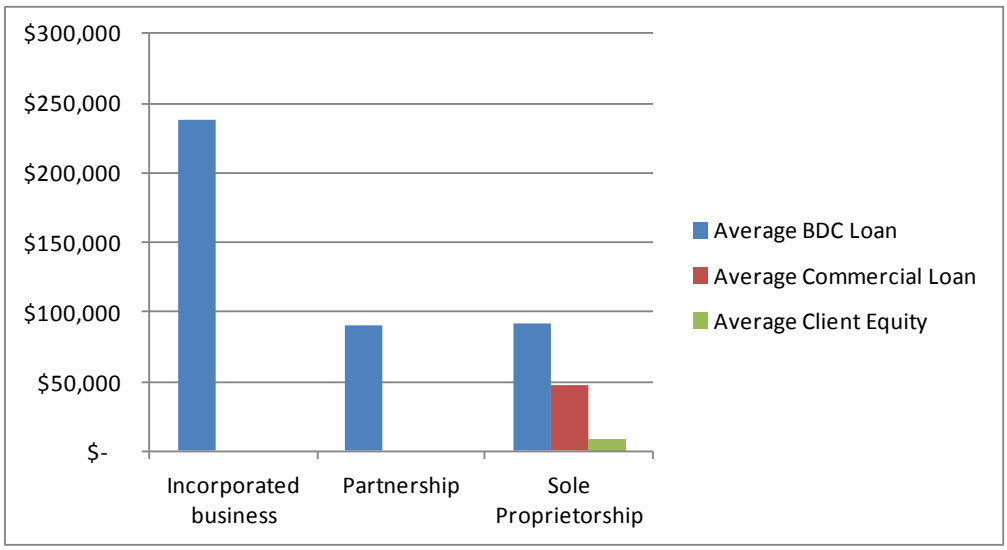
The breakdown of loans and client equity is as follows in Table 9:

Table 9: Breakdown of total loans and client equity directed at working capital, BDC (2013-2015)

BDC loans	Commercial Loans	Client Equity	Total
$18,342,289	$5,769,640	$954,183	$25,066,112
73%	23%	4%	

In terms of the breakdown of loans and client equity by client business structure, 71 per cent involved sole proprietorships, 16 per cent involved partnerships, and 13 per cent involved incorporated businesses. For each business structure, the comparative value of average loans and client equity is as follows in Chart 6:

Chart 6: Average loans and client equity directed at working capital, by business structure, BDC (2013-2015)



In terms of the clients' Aboriginal identity and location, the breakdown of loans and client equity is as follows: 47 per cent involved a Métis client off reserve, 37 per cent involved a First Nation client off reserve, 6 per cent involved a First Nation client on reserve, almost 5 per cent involved a non-Aboriginal client on reserve, 4 per cent involved a Non-status Aboriginal client off reserve, and less than 1 per cent involved an Inuit client.

Information Communications Technology services: BDC's Aboriginal portfolio includes a special category for ICT components and services. Our model integrates the ICT hardware and software components with capital costs, and any marketing related components with working capital. This leaves a category of services that in the input-output model are associated with intermediary inputs such as internet access services, and computer systems design and related services (except software development).

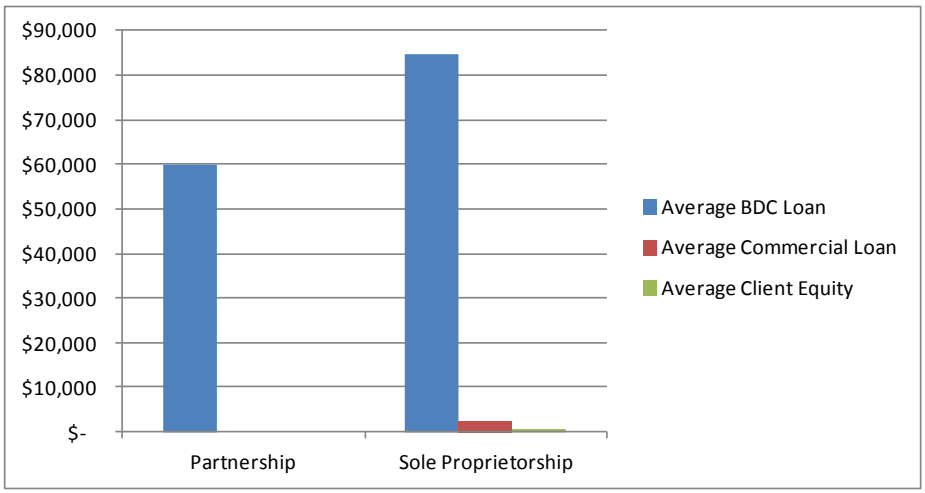
The breakdown of loans and client equity is as follows in Table 10:

Table 10: Breakdown of total loans and client equity directed at ICT services, BDC (2013-2015)

BDC loans	Commercial Loans	Client Equity	Total
$1,158,500	$29,771	$7,994	$1,196,265
97%	2%	1%	

In terms of the breakdown of loans and client equity by client business structure, 95 per cent involved sole proprietorships, and 5 per cent involved partnerships. For each business structure, the comparative value of average loans and client equity is as follows in Chart 7:

Chart 7: Average loans and client equity directed at ICT services, by business structure, BDC (2013-2015)



In terms of the clients' Aboriginal identity and location, the breakdown of loans and client equity is as follows: 42 per cent involved a First Nation client on reserve, 32 per cent involved a First Nation client off reserve, almost 18 per cent involved a Métis client off reserve, 4 per cent involved a non-Aboriginal client on reserve, 3 per cent involved an Inuit client, and less than 2 per cent involved a Non-status Aboriginal client off reserve.

BDC model and impact analysis

Our model of BDC's Aboriginal portfolio includes several different categories of direct, indirect, and induced impacts that result from the business activity patterns associated with the combination of loans and client equity. These include impacts on:

- Gross Domestic Product (GDP) at basic prices;
- Employment; and
- Labour Income.

Before proceeding with our interpretation of the results the reader must keep in mind the guiding assumptions that have contributed to this impact analysis. Previously we discussed how the lack of empirical data about the outcomes of Aboriginal developmental finance required that reasonable assumptions be made about how BDC's clients spent their associated loans and matching equity contributions. These reasonable assumptions are based on information provided in the BDC dataset for each loan, in terms of the size and purpose of each loan and matching equity contribution. This information is then fed into Statistics Canada's input-output model of the Canadian economy. The input-output model then simulates economic impacts by matching the BDC information with industry specific patterns of business activity associated with capital investment (machinery and equipment, and construction), operating expenditures, and intermediate inputs (ICT services). The simulation assumes that, at the aggregate level of industries and provinces/territories, a typical Aboriginal business will make capital investments and operating expenditures similar to a typical Canadian SME. For the purposes of investigating the magnitude of impacts at the level of provinces/territories, this assumption

should be reasonable. It does not however, permit us to make finer-grained inferences about regions or locations below this level of detail. The result is a countrywide economic footprint of BDC's Aboriginal portfolio and associated developmental finance services.

GDP impact of BDC's Aboriginal portfolio

Table 11 presents the direct, indirect, and induced impacts of the BDC portfolio's expenditure patterns on GDP at basic prices. The results are broken down in terms of three patterns: capital investment, working capital expenditures, and spending on ICT services. A total of **$87.65 million** of loans and client equity in the BDC Aboriginal portfolio went to capital investment. Of that total, **$68.9 million** was spent on goods produced in Canada, while the remainder primarily consisted of imported goods[21] – such as machinery and equipment, and parts (associated with economic leakage). The impact assessment is therefore based on this **$68.9 million**, and the results are reported in Table 11.

Table 11 indicates that the direct impact of capital investment under BDC's Aboriginal portfolio was over **$28.2 million**; while the indirect impact was over **$24.5 million**, and the induced impact was over **$17.4 million**. The total direct, indirect and induced impact of capital investment in this case was therefore over **$70.2 million**. Relative to the total capital investment of **$87.65 million**, these results imply that the simple multiplier for capital investment, including direct and indirect impacts, was **0.60**; while the total multiplier including direct, indirect, and induced impacts was **0.80**. Expressing it differently, for every dollar of capital investment, including loans and client equity, the BDC's Aboriginal portfolio stimulated **$0.80** in GDP.

Table 11: GDP impact of BDC's Aboriginal portfolio – Canada wide

	GDP at basic prices (000s)		
Impacts	**Capital investment**	**Working Capital**	**ICT services**
Direct	$ 28,249	$12,671	$0
Indirect	$ 24,549	$7,790	$959.4
Induced	$ 17,466	$6,655	$324.2
Total	$70,264	$27,116	$1,284

In comparison, a total of **$25.1 million** in loans, client equity, and non-repayable contributions went to working capital expenditures. Table 11 indicates that the direct impact of these working capital expenditures was over **$12.7 million**, while their indirect impact was over **$7.7 million**, and their induced impact was over **$6.6 million**. This means that, in the case of working capital expenditures, the combined direct, indirect, and induced impact was over **$27.1 million**. Relative to the total expenditure of **$25.1 million**, the simple multiplier for working capital investment, including indirect impacts, was **0.82**; while the total multiplier including induced impacts was 1.08. Expressing it differently, for every dollar associated with working capital expenditures (including loans and client equity), BDC's Aboriginal portfolio stimulated **$1.08** in GDP.

[21] Inventory withdrawals and taxation are additional components of the remainder, although small compared to imports.

Lastly, a total of **$1.196 million** in loans, client equity, and non-repayable contributions was spent on ICT services. Table 11 indicates that the indirect impact of this business activity was over **$959 thousand**, while the induced impact was over **$324 thousand**. This means that, for total expenditures on ICT services, the combined indirect and induced impact was over **$1.2 million**. Relative to the total expenditure of **$1.196 million**, the simple multiplier for working capital investment, including indirect impacts, was **0.80**; while the total multiplier including indirect and induced impacts was **1.07**. Expressing it differently, for every dollar of economic activity associated with expenditures on ICT services (including loans, equity, and non-repayable contributions) BDC's Aboriginal portfolio stimulated **$1.07** in GDP.

Employment impact of BDC's Aboriginal portfolio

Table 12 presents the impacts of BDC's Aboriginal portfolio on Canada wide employment, again broken down in terms of capital investment, working capital expenditures, and spending on ICT services. As shown in the table, total expenditures associated with capital investment yielded **352 direct jobs**. Furthermore, the economic activity associated with these capital investments corresponded to more than **771 jobs** across Canada, including **255 indirect jobs** and **164 induced jobs**. The total jobs multiplier was therefore approximately **0.01 (per $1,000 of direct output)**.

In comparison, the countrywide employment impacts of the BDC portfolio's associated expenditures on working capital requirements and ICT services were smaller. The economic footprint analysis indicates that business activities associated with working capital expenditures corresponded to approximately **344 jobs** in Canada, including **195 direct jobs**, **84 indirect jobs**, and **65 induced jobs**. Here the total jobs multiplier was approximately **0.014**. With respect to ICT services, the economic footprint analysis shows that this category of expenditures corresponded to just **13 jobs** in Canada, including an indirect impact of **10 jobs** and an induced impact of **3 jobs**. The total jobs multiplier in this case was approximately **0.011 (per $1,000 of direct output)**.

Table 12: Employment impact of BDC's Aboriginal portfolio – Canada wide

	Jobs (Full time equivalent)		
Impacts	**Capital investment**	**Working capital**	**ICT Services**
Direct	352	195	0
Indirect	255	84	10
Induced	164	65	3
Total	771	344	13

Labour income impact of BDC's Aboriginal portfolio

Table 13 is closely tied to Table 12 and presents the impacts that portfolio investments had on labour income in the Canadian economy. The economic footprint analysis shows that business activity associated with capital investments contributed almost **$22 million** in direct labour income, followed by an indirect impact of around **$15.6 million** and an induced impact of more than **$8.1 million**. The total

labour income multiplier in this case was therefore **0.52.** In comparison, business activity associated with working capital expenditures contributed over **$9.9 million** in direct labour income, followed by an indirect impact of over **$4.6 million** and an induced impact of more than **$3.1 million**. Finally, the impact of spending on ICT services was considerably smaller, with a total labour income impact of **$793.6 thousand**, comprised of **$640.3 thousand** in indirect impacts**,** and **$153.3 thousand** in induced impacts.

Table 13: Labour income impact of BDC's Aboriginal portfolio – Canada wide

	Labour income (000s)		
Impacts	**Capital investment**	**Working capital**	**ICT Services**
Direct	$21,653	$9,969	$0
Indirect	$15,600	$4,660	$640.3
Induced	$8,161	$3,173	$153.3
Total	$45,413	$17,802	$793.6

Interpretation of model results – ABFP versus BDC

The ABFP and BDC datasets both represents an economic situation where Aboriginal businesses are focused particularly on growth. To grow, businesses require funds for capital investment. In the ABFP dataset, for example, approximately 63 per cent of the capital investment funds ($189.6 million) included in our model involved business start ups. Among the clients represented in the BDC dataset, almost 40 per cent indicated in their pre-selection screening survey, that purchasing equipment was part of their business growth strategy in the next 12 months. Purchasing equipment was the most frequent response clients made to the BDC survey, followed by expanding production, another capital intensive strategy.

Because the clear majority of loans and equity contributions associated with ABFP and BDC's associated Aboriginal developmental finance services in 2013-2014 and 2015-2016 address capital investments, their domestic impacts are considerably dampened by economic leakage. As is the case when most Canadian businesses make capital investments, their spending typically involves a series of imports to satisfy their demand for machinery and equipment. In the case of the ABFP dataset, almost 45 per cent of total capital investment ($189.6 million) flows out of the country for imports; while in the BDC dataset international imports take almost 36 per cent of total capital investment ($87.65 million). Table 14 provides a more detailed breakdown of the capital investment expenditures, by deriving their relationship to GDP at market prices[22].

Table 14: Breakdown of capital investment expenditures into GDP at market prices (000s), ABFP versus BDC (2013-2015)

Capital investment expenditures	ABFP	BDC
Final domestic expenditures on commodities	$189,630	$87,651
Exports of commodities	$0	$0

[22] GDP at market prices: The gross value at market prices of all goods and services produced by the economy, plus taxes but minus subsidies on imports.

International imports (final expenditures)	**-$60,744**	**-$16,762**
International imports (intermediate inputs)	**-$24,061**	**-$14,538**
Interprovincial imports (final expenditures)	-$18,551	-$4,146
Interprovincial imports (intermediate inputs)	-$22,017	-$14,903
Inventories and other commodity leakages	-$2,358	-$1,326
Interprovincial exports	$40,568	$19,049
Net total (GDP at market prices)	$102,467	$55,025

Despite such similarities on the capital investment side, the two datasets have different mechanisms driving their developmental finance activities. In the case of the ABFP dataset, AFIs are a prospective business client's point of contact for accessing the ABFP and its related developmental finance services; but, in terms of total investment, AFI lending is not the key driver of economic impacts associated with the ABFP dataset. Indeed, as discussed earlier, ABFP related loans only account for approximately 1/3 of the total lending undertaken by NACCA's AFI members. In the case of BDC's Aboriginal portfolio, BDC is the prospective client's point of contact, and its lending also drives the portfolio's economic impacts. The differences between the two datasets are evident when we compare the leverage BDC and AFIs under ABFP get from their respective contributions to capital investment.

If we combine our findings from Tables 1 and 5 from earlier on, we see that for every dollar AFIs lent to clients for capital investment under ABFP, about $3.6 was added to GDP[23], thanks to matching funds (associated with other lenders, client equity, and non-repayable government contributions including ABFP program contributions). By comparison, and drawing upon findings from Tables 8 and 11, we see that for every dollar BDC lent to clients for capital investment, about $1.15 was added to GDP[24], thanks to matching funds (associated with other lenders and client equity). The AFIs participating in ABFP have more than three times BDC's leverage because they are able to attract a considerably higher proportion of matching funds from other commercial lenders and client equity, in addition to their use of non-repayable government contributions. As Table 15 shows, BDC's lending activities comprise around 70 per cent of total capital investment associated with its Aboriginal portfolio, while AFI lending comprises just 18.9 per cent of total capital investments associated with the ABFP dataset.

The AFIs' capacity to attract substantial matching funds through ABFP is a testament to their abilities as developmental lenders. In particular, it highlights their skill at brokering financing arrangements between other lenders, clients, and government programs. As Table 15 indicates, there is substantially more going on in the ABFP financial ecosystem than a simple transfer of non-payable government funds to clients. In particular, other lenders provided 34.1 per cent of the total financing directed at capital investments. The risk the AFIs face, however, is being potentially over-reliant on external partners;

[23] This multiplier is the quotient of: the total GDP impact of the 'ABFP program's associated capital investments' ($127.96M), as featured in Table 5 above, divided by a total of $35.97M in AFI loans for capital investment under ABFP (as featured in Table 1 above).

[24] This multiplier is the quotient of: the total GDP impact of the 'BDC Aboriginal portfolio's capital investments' ($70.3M), as featured in Table 11 above, divided by a total of $61.1M in BDC loans for capital investment as featured in Table 8 above).

which can lead to capital shortfalls when government programs withdraw contributions, or when other commercial lenders decide to pursue other opportunities. Such risks threaten to undermine the economic impact they can make.

Table 15: Breakdown of contributions to total capital investment, AFIs under ABFP versus BDC's Aboriginal Portfolio (2013-2015)

Lender	Own loans	Other lenders	Non-repayable government		Client equity	Total
AFIs under ABFP	18.9%	34.1%	ABFP 20.3%	Other 7.3%	19.4%	$189,630,059
BDC	70%	8%			22%	$87,651,101

The role of equity participation in Aboriginal developmental finance

Having investigated the countrywide impacts of ABFP and BDC, we now have a better sense of the economic footprint such developmental finance services can make in the Canadian economy. While the gaps in empirical data make it difficult to draw inferences about local impacts, in this section we will set out to understand the role equity participation plays in the developmental finance process, and what its relationship may be to community economic development and local job creation.

To undertake this investigation, we recruit more information from the ABFP and BDC datasets, along with data from secondary sources, and an additional developmental finance service provided by NACCA and a subset of AFIs – the Aboriginal Developmental Lending Assistance (ADLA) program.

Equity participation parameters in the ABFP and BDC datasets

Research over the past 15 years has repeatedly observed that many Aboriginal businesses in Canada have limited equity to finance their projects or attract private investors. The Canadian Council for Aboriginal Business in its 2010 Aboriginal Business Survey (ABS) found that 43 per cent of Aboriginal small business owners considered access to financing as an obstacle to growth, while 34 per cent identified access to equity or capital as an obstacle[25]. These findings echo earlier survey results from Statistics Canada's 2003 Aboriginal Entrepreneurs Survey. More recently, the CCAB's 2015 ABS survey results indicate that access to finance may be getting easier (now a concern for 29 per cent of respondents), but that access to equity or capital continues to be a challenge for almost a third of Aboriginal businesses (31 per cent)[26]. While lenders catering to Aboriginal businesses may provide different means for clients to access financing, in many cases where a business is remote or on reserve, up front equity participation continues to play an important role in securing loans.

[25] https://www.ccab.com/uploads/File/Promise-and-Prosperity--The-Aboriginal-Business-Survey.pdf, p. 4
[26] The CCAB's 2015 Aboriginal Business Survey results were reported in a recent Conference Board of Canada webinar: http://www.conferenceboard.ca/e-library/abstract.aspx?did=8077. See also: https://www.ccab.com/research/ccab-research-series/promise-and-prosperity/promise-and-prosperity-2016/

The ABFP and BDC datasets reveal several relevant equity participation parameters for Aboriginal entrepreneurs and community-owned SMEs. Broadly speaking, these parameters can be grouped under the following three categories:

- Aboriginal identity and location;
- Industry selection; and
- Business structure and capacity.

Aboriginal identity and location

As parameters of equity participation, Aboriginal identity and location summarize and represent structural characteristics of the business clients seeking developmental finance services. Such structural characteristics include geographic factors such as distance from markets and supply chains, legal factors such as property rights systems on reserves, as well as demographic and socio-economic factors associated with different population groups. See Modules 1 and 3 for further details. Differences between these underlying factors are closely associated with Aboriginal identity and location. Consider for example, the different financing constraints that appear when a business is on reserve versus off reserve, or located in a sparsely populated remote area versus a densely populated urban one. Module 3, in particular, takes a closer comparative look at these various differences and their implications for developmental finance. In this section we focus on the associated interplay of lending and equity participation, as seen in the BDC and ABFP datasets.

Insights from the BDC dataset

In the BDC dataset, the Aboriginal identity and location of the business client both have an important influence on the size of loans and matching equity. Specifically, First Nation businesses on reserve and Inuit owned businesses stand in sharp contrast to off reserve First Nation, Métis, and non-status Aboriginal businesses.

The average First Nation business client on reserve matched 28 per cent of the value of their loan package[27] with an equity contribution. Their average loan package was $849 thousand[28]. Similarly, the average Inuit business client matched 26 per cent of their loan package with an equity contribution. In their case the average loan package was $445 thousand[29]. As we observed in our economic footprint analysis of BDC's Aboriginal portfolio, the majority of these funds are directed towards capital investment (machinery and equipment, and/or construction). For BDC's Inuit clients this is almost entirely associated with land development and construction, while for First Nation clients on reserve almost a third of funds are associated with the purchase of machinery and equipment.

[27] Here we are referring to the total loan package of BDC loans and other associated commercial loans.
[28] Median loan size was $173.5 thousand.
[29] Median loan size was $267.9 thousand.

By contrast, the average First Nation client off reserve matched just 7 per cent of the value of their total loan package, which on average was $190 thousand[30]. Similarly, a non-status Aboriginal or Métis business client matched just 5 per cent of the value of their loan package. In this case, average loan packages were $294 thousand and $230 thousand respectively[31]. For these groups a relatively greater portion of their client relationship with BDC involved working capital related loans (31 per cent on average, versus 4.78 per cent for Inuit clients and First Nation clients on reserve).

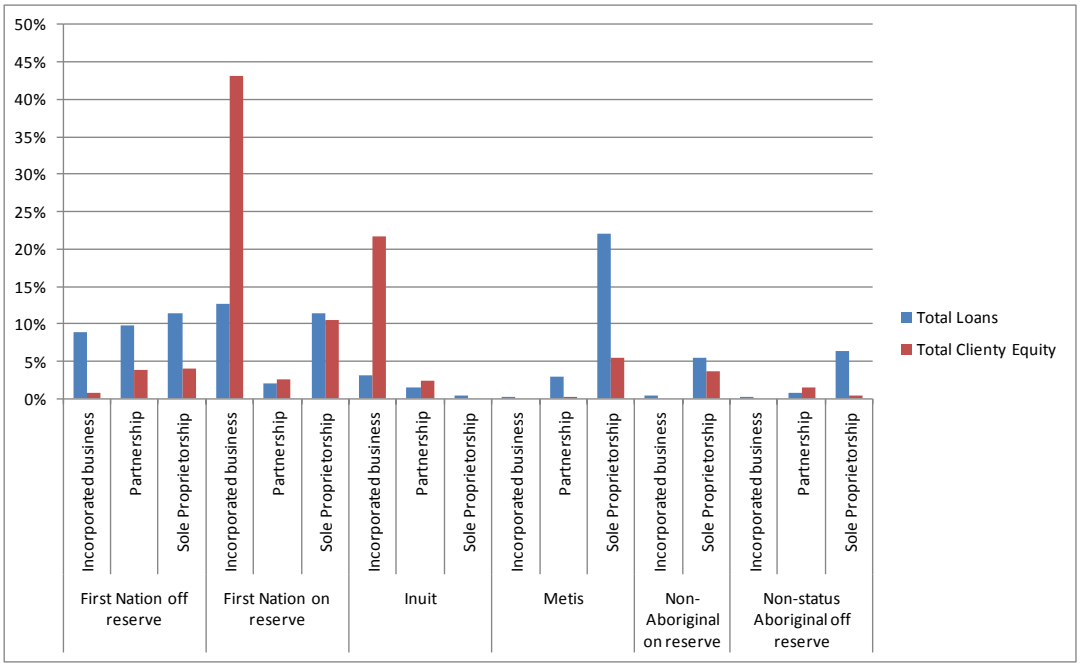
In terms of the distribution of total client equity in the BDC dataset, Aboriginal identity and location are also associated with business structure. Chart 8 provides a complete percentage breakdown of total loans and client equity in the dataset. 43 per cent of total client equity in the BDC dataset is due to First Nation incorporated businesses on reserve. Inuit owned incorporated businesses contributed an additional 22 per cent, followed by First Nation owned sole proprietors on reserve (at 10.5 per cent). Overall, the Inuit and on reserve First Nation client groups contributed over 80 per cent of client equity in the BDC dataset. Yet they made up just 12 per cent of the total number of businesses, and received just over 31 per cent of total loans (BDC plus other commercial loans).

While equity participation appears to be critical for Inuit clients and for First Nation clients on reserve, it is not as apparent a condition for clients who are less remote and off reserve. For example, just over 22 per cent of total loans in the BDC dataset went to Métis sole proprietors, while their share of total client equity was only 5.5 per cent[32].

In this context, business size may also matter. For Inuit clients and for First Nation clients on reserve, the majority of loans went to employers of 50 or less (at 100 and 92 per cent respectively). For Métis and First Nation clients off reserve, more than a quarter of loans went to employers of 100 or more (at 31 and 41 per cent respectively). The latter group would presumably have more assets to provide as collateral; assets which importantly, would be largely unconstrained by issues such as remoteness or the complicated property rights systems associated with reserves and other Aboriginal landholding arrangements (e.g., as under the Nunavut Land Claims Agreement).

[30] Median loan size was $60.5 thousand.
[31] For both Métis and non-status Aboriginal clients, median loan size was $75 thousand.
[32] Métis businesses as a whole constituted 31 per cent of all clients in the BDC dataset.

Chart 8: Percentage breakdown of total loans and client equity, by Aboriginal identity, location, and business structure, BDC (2013-2015)



Insights from the ABFP dataset

The ABFP dataset incorporates a different set of variables for Aboriginal identity and location, but the insights it presents reinforce the importance of these structural equity participation parameters.

In particular, the ABFP data provide more detailed information about the structure of businesses on reserve and its interplay with client equity and non-repayable government contributions. See Table 16. In terms of the general focus of client investments, the ABFP is similar to the BDC dataset. Over 93 per cent of its funds associated with businesses on reserve, including client equity, non-repayable contributions, and loans, was directed at capital investment.

On reserve, the average First Nation sole proprietor matched 26 per cent of the value of their loan package[33] with an equity contribution. However, when we include any non-repayable contributions from the ABFP or other government sources, the average matching equity rises to 101 per cent. The average loan package in this case was $48 thousand. In comparison, the average incorporated business on reserve has a similar equity participation profile, matching 29 per cent of their loan package's value; but with a substantially higher average loan package of $202.6 thousand. Moreover, when we include all non-repayable contributions, their average matching equity rises to 106 per cent. A sharper contrast appears when we examine First Nation owned businesses[34] on reserve. Although their average loan package was comparable to incorporated businesses on reserve, at $202.4 thousand, their average equity contribution matched 42 per cent of their loan package's value. Furthermore, when we include all

[33] Loan package and total loans refer to AFI loans plus any matching commercial loans.
[34] These are community owned enterprises, i.e., owned by local First Nation Bands or governments.

non-repayable contributions, their average matching equity rises to 143 per cent of their loan package. In this context, First Nation owned businesses make greater use of equity participation to secure loans than other business structures on reserve. But they also appear to be a priority beneficiary of ABFP's non-repayable contributions, as well as a priority client group for other government funded sources such as the federal Regional Development Agencies (and related community futures development corporations).

Off reserve the ABFP loans and matching client equity contributions all get substantially smaller (and reduced by more than half for incorporated and First Nation owned businesses). However, when taken as a proportion of loans, the equity contributions of sole proprietors and incorporated businesses off reserve increase from 26 to 30 per cent, and 29 to 40 per cent. See Table 16. All in all, the rates of equity participation in the ABFP dataset are considerably higher for most business structures than in the BDC dataset, regardless of whether they are on or off reserve. This suggests that client equity may be more important for securing AFI loans than for BDC, but it also reflects conditions for accessing the ABFP's non-repayable government contributions[35], which require matching funds from clients.

Table 16: Total equity and client equity as proportion of loans, by business structure and location, ABFP (2013-2015)

Business Structure	Location of Business	Total equity as a proportion of loan package (average)	Client equity as a proportion of loan package (average)	Average loan package (000s)
First Nation owned	Off reserve	95%	38%	$87
	On reserve	143%	42%	$202.4
Incorporated	Off reserve	115%	40%	$79.3
	On reserve	106%	29%	$202.6
Sole proprietor	Off reserve	111%	30%	$39.2
	On reserve	101%	26%	$48

Industry selection

Industry selection is another equity participation parameter evident in the BDC and ABFP datasets. Industry selection represents the fact that officers of developmental finance services make loan decisions based – in part – on information they receive about the performance of different industry sectors and the expected risks and returns of associated business opportunities. Similarly, many business owners themselves, whether of start ups or established firms, weigh their investment decisions based on how they think relevant industries are doing in the short, medium, and long terms. A simple example would be the difference in expected profit and loan payback performance between an incorporated business looking to expand its logistical services to an established diamond mine, versus a small sole proprietor looking for a loan to expand a local hair salon or outfitting business. Consider how the perception of value and associated risk in each venture depends on the industry sector as well as on

[35] See for example: http://advisoryservices.ca/wp-content/uploads/2011/06/ABDP-info-sheet.pdf

the type of business structure and scale of the enterprise. Industry selection represents the interplay of these various factors.

Industry sectors and investor preferences in the ABFP and BDC datasets

The top four industry sectors, by total loans and client equity, are similar for the BDC and ABFP datasets, except that BDC includes manufacturing while ABFP includes accommodation and food services. Compare Table 17 and Table 18.

Table 17: Top four industries by total/average loans and client equity, ABFP (2013-2015)

Industry	Total Loans	Total client equity	Average client equity	Average loan
Retail trade	$43,235,463	$12,690,836	$103,178	$351,508
Accommodation and food services	$38,230,110	$7,705,612	$57,505	$285,299
Agriculture, forestry, fishing and hunting	$20,630,988	$3,596,803	$27,882	$159,930
Construction	$19,743,148	$3,358,170	$23,649	$139,036

Table 18: Top four industries by total/average loans and client equity, BDC (2013-2015)

Industry	Total Loans	Total client equity	Average client equity	Average loan
Construction	$21,843,360	$6,073,343	$106,550	$383,217
Retail trade	$10,478,039	$2,645,801	$58,796	$232,845
Agriculture, forestry, fishing and hunting	$9,569,808	$1,625,001	$90,278	$531,656
Manufacturing (NAICS33)	$8,514,265	$701,070	$41,239	$500,839

In the ABFP dataset, we find that, as lenders, AFIs and associated commercial lenders have some distinct preferences for industry sectors. These revealed preferences relate to client equity participation and government contributions in complex ways. The perspective we take to understand these patterns is based on each party's contribution to total industry sector investment (loans plus client equity).

As a group, the AFIs' share of total investment in the ABFP dataset was 18.8 per cent of $202 million (which places them in fourth place, behind commercial lenders, the ABFP's non-repayable contributions, and client equity contributions). The AFIs however play leading roles in several industry sectors[36] where

[36] These sectors are classified in terms of the 2007 two digit North American Industry Classification System (NAICS).

their lending provides the largest share of total industry sector investment (loans plus equity). These sectors are presented in Table 19:

Table 19: AFI loans as proportion of total investment (loans and equity), by industry sector, ABFP (2013-2015)

Industry	AFI loans as proportion of total investment	Total investment (loans and equity)
Real estate and rental and leasing	58.2%	$2,674,483
Mining and oil and gas extraction	45.8%	$4,541,306
Transportation and warehousing (NAICS 49)	44%	$835,599
Administrative and support, waste management and remediation services	38.2%	$5,401,299
Transportation and warehousing (NAICS 48)	32.3%	$17,919,166

A leading role in transportation and warehousing (NAICS 48 and 49) is clearly evident among the AFIs as a group, as is their role in mining and oil and gas, real estate, and support services under NAICS 56. By comparison, commercial lenders in the ABFP dataset are the majority source of funds in a separate set of industry sectors, notably manufacturing, retail trade, and arts, entertainment and recreation. Their leading roles are summarized in Table 20.

Table 20: Commercial loans as proportion of total investment (loans and equity), by industry sector, ABFP (2013-2015)

Industry	Commercial loans as proportion of total investment	Total investment (loans and equity)
Manufacturing (NAICS 32)	52.5%	$3,498,962
Arts, entertainment and recreation	49%	$4,470,587
Retail trade (NAICS 44)	40%	$43,235,463
Accommodation and food services	39.3%	$38,230,110
Health care and social assistance	38.9%	$7,158,515
Retail trade (NAICS 45)	34.1%	$3,606,261

With their leading roles in ABFP's largest industry sectors (by volume of investments), including retail trade (NAICS 44) and accommodation and food services, it is not surprising that commercial lenders comprise over 32 per cent of total investment in the ABFP dataset (out of $202 million).

Looking at the equity side of total investment in the ABFP dataset, the non-repayable federal contributions of the ABFP program itself comprise over a third of total investments in several industry sectors. These total investments tend to be smaller than in sectors dominated by AFIs or especially commercial lenders. See Table 21. Nevertheless, the non-repayable contributions of the ABFP program add up to 22 per cent of total investment in the dataset, covering all 23 industry sectors with an average contribution of $1.9 million (median $998 thousand).

Table 21: ABFP non-repayable contributions as proportion of total investment (loans and equity), by industry sector, ABFP (2013-2015)

Industry	ABFP contributions as proportion of total investment	Total investment (loans and equity)
Management of Companies and Enterprises	75%	$5,500
Manufacturing (NAICS 31)	44.6%	$2,238,986
Educational Services	41.5%	$597,672
Finance and insurance	37.5%	$677,806
Administrative and Support, Waste Management and Remediation Services	35.3%	$5,401,299
Utilities	33.4%	$1,303,714

By comparison, other government non-repayable contributions comprised just 7.2 per cent of total investment in the ABFP dataset. Yet they played key roles in three particular sectors, including finance and insurance (36.9 per cent of $678 thousand), information and cultural industries (33.6 per cent of $6.76 million), and utilities (22.1 per cent of $1.3 million). Their preferences reflect the policy priorities of their associated government programs, and in particular, those belonging to the federal Regional Development Agencies.

For their part, client equity contributions in the ABFP dataset rarely exceed a third of total investment in any given industry sector though they constitute the third largest share of total investment at 19.7 per cent of $202 million. The exception is wholesale trade (at 35.1 per cent of $2.6 million). Nevertheless, client equity contributions exceeded a quarter of total investments in several other industry sectors. These are summarized in Table 22.

Table 22: Client equity contributions as proportion of total investment (loans and equity), by industry sector, ABFP (2013-2015)

Industry	Client equity contributions as proportion of total investment	Total investment (loans and equity)
Wholesale trade	35.1%	$2,567,011
Retail trade (NAICS 44)	29.4%	$43,235,463
Transportation and warehousing (NAICS 49)	26%	$835,599
Manufacturing (NAICS 33)	25.6%	$2,174,344

In the BDC dataset, we also find that, as lenders, BDC and the commercial lenders involved in its Aboriginal portfolio have some distinct preferences for industry sectors. These revealed preferences also relate to client equity participation in complex ways. The perspective we take to understand these patterns is again based on each party's contribution to total industry sector investment (loans plus client equity).

For BDC, as a lender, several industry sectors[37] involved loans without any matching funds from either client equity or other commercial lenders. These sectors are presented in Table 23. It is also worth remembering that BDC loans constitute about 71 per cent of total investments in the dataset.

Table 23: BDC loans as proportion of total investment (loans and equity), by industry sector, BDC (2013-2015)

Industry	BDC loan as proportion of total investment	Total investment (loans and equity)
Transportation and warehousing	96%	$3,281,700
Information and cultural industries	100%	$5,004,800
Finance and insurance	100%	$470,000
Real estate and rental and leasing	100%	$828,497
Professional, scientific and technical Services	94%	$8,230,163
Management of companies and enterprises	100%	$100,000

Other commercial lenders involved in matching BDC loans and client equity played key roles in a different set of industry sectors, mainly in manufacturing, but also in the services sector. Their key sectors are presented in Table 24. Compared to BDC, their portion of total investment in the dataset was 14 per cent.

Table 24: Other commercial loans as proportion of total investment (loans and equity), by industry sector, BDC (2013-2015)

Industry	Other lenders as proportion of total investment	Total investment (loans and equity)
Manufacturing (NAICS 31)	55%	$1,044,028
Manufacturing (NAICS 33)	45%	$9,215,335
Arts, entertainment and recreation	31%	$2,978,676
Accommodation and food services	26%	$10,553,048

By contrast, a largely different set of industry sectors attracted the highest proportion of client equity (as a percentage of total industry sector investment). These are presented in Table 25:

Table 25: Client equity as proportion of total investment (loans and equity), by industry sector, BDC (2013-2015)

Industry	Client equity as proportion of total investment	Total investment (loans and equity)
Wholesale trade	48.5%	$7,362,937
Accommodation and food services	38%	$10,553,048
Construction	21.8%	$27,916,703
Retail trade	20.2%	$13,123,840

[37] These sectors are classified in terms of the 2007 two digit North American Industry Classification System (NAICS).

Client equity in the BDC dataset constituted about 20 per cent of total investments, which is similar to the proportion of client equity to total investment in the ABFP dataset. The industry selection perspective also allows us to investigate how funding patterns may vary, in some cases, with client business structure. Within the BDC dataset's profile of the construction sector, for example, incorporated businesses make the highest total equity contribution compared to partnerships or sole proprietorships. See Table 26.

Table 26: Total equity contributed to total investment (loans and equity) in the construction sector, by business structure, BDC (2013-2015)

Business Structure	Client equity as proportion of total investment	Total investment (loans and equity)
Incorporated business	26%	$978,333.33
Partnership	7%	$449,666.67
Sole Proprietor	4%	$256,343.33

Growth opportunities in the natural resources sectors – focus on mining

Another important feature of the industry selection perspective is its identification of growth opportunities for developmental finance. This typically requires access to forward looking data from macroeconomic forecasting models. The Conference Board of Canada, for example, provides such data and related industry sector views in its recurring forecasts of Provincial/Territorial Economic Trends.

With respect to growth opportunities for Aboriginal business, The Conference Board of Canada forecasts major investments in the Canadian natural resources sector. As discussed in a 2016 report, these potential investments could present significant opportunities for Aboriginal business and employment[38].

Natural Resources Canada estimates that up to $700 billion of investment could take place in the natural resources sectors from 2015 to 2025. The outlook for new developments in the resources sectors however has become more pessimistic over the past few years, and it is unlikely that all potential projects will materialize. Based on more current information, The Conference Board of Canada estimates that around $342 billion in total investment is a more likely scenario in this decade.

The Conference Board of Canada's estimate represents a selective sample of 115 resource projects that are highly likely to proceed over the next ten years. In particular, the Conference Board's outlook for growth in the metal and non-metal mining industries is favourable; and we will use this sector as an example of opportunities raised in the more detailed report. Altogether, mining industries employed around 58.6 thousand Canadians in 2014. The Conference Board estimates that this total will grow to 67.4 thousand by 2025, with most of the growth expected to occur by 2018 (due to industry pressures).

[38] The full Conference Board of Canada report is available here: http://www.conferenceboard.ca/e-library/abstract.aspx?did=7651.

This outlook should be important to Aboriginal business for several reasons. First, a greater share of Aboriginal people is represented in the natural resources sectors than in the general population; and this is particularly the case for mining and oil and gas extraction. Aboriginal people, for example, constituted 6 per cent of the mining and oil and gas industries' combined workforce in 2011, despite constituting around 4 per cent of the general census population and 3.4 per cent of employed Canadians at the time.

In terms of compensation, the mining industries also offer some of the highest wages for Aboriginal workers in Canada. Looking at the 2011 National Household Survey data we find that full-time Aboriginal workers in mining earned approximately $78,000 per year. By comparison, the second highest paying industry for Aboriginal workers was the utilities sector (at $66,000); while average employment earnings for Aboriginal workers in Canada was around $39,000 at the time.

For Aboriginal business, the opportunity that mining presents extends beyond local employment benefits. Mining companies have significant capital requirements for machinery and equipment. They also have significant needs for a broad range of support services, from accounting and legal services, catering and site management, to equipment repair and maintenance, among others. These opportunities along mining sector supply chains help support business development for a number of small and medium sized enterprises. In The Conference Board of Canada forecasting model, these are the indirect jobs that exist to support the operations of a mine. Beyond that, mining employees also create and support induced jobs when they spend their wages and salaries on goods and services for themselves and their families. With support from the AFI network, in particular, such opportunities could be seized by Aboriginal businesses operating in the regions where Canada's most promising mining projects are taking place – particularly in Northern and remote regions.

Such opportunities can be particularly pronounced when impact and benefit agreements have been reached between industry and local Aboriginal groups. For example, three major diamond mining companies operating in the Northwest Territories reported on their northern procurement activities in 2013. From 1996 to 2011, the three companies spent a total of $12.8 billion to build and operate their mines. Of this total, 72 per cent, or $9.25 billion, flowed to northern companies and joint ventures; and, of this spending on northern procurement, $4.2 billion went directly to Aboriginal companies[39].

As represented in the BDC and ABFP datasets however, the mining and oil and gas sectors have received less than an average share of total investment over the 2013-2014 and 2014-2015 fiscal periods. In the ABFP data set, total investment in the mining and oil and gas sector was 2 per cent of the total $202 million. Similarly, in the BDC dataset, the mining and oil and gas sector represented 3 per cent of the total $113.9 million invested. (The average of any given industry sector's share of the ABFP total was 4 per cent, while in the BDC dataset it was 5 per cent).

Business structure and capacity

[39] http://mining.ca/sites/default/files/documents/MeasuringSuccessDiamondBenefitstoNWTMarch2013.pdf, p. 4.

Although the ABFP and BDC datasets both feature a variety of business structures, the most frequent are sole proprietorships and incorporated businesses. In the BDC dataset, sole proprietors are associated with 57 per cent of loans, followed by incorporated businesses at 25 per cent. In the ABFP dataset the order is reversed, with 41 per cent of loans associated with incorporated businesses, followed by sole proprietors at 25 per cent. In terms of the general landscape of Aboriginal business, CCAB survey data from 2010 and 2015 suggest that sole proprietors make up around 61 per cent of Aboriginal businesses in Canada. In this context, the developmental financing activities in the ABFP dataset in particular appear to be focusing on more diverse business structures in a landscape that's still dominated by sole proprietors.

We have already seen through the previous locational and industry selection views that incorporated businesses generally have a higher capacity for equity participation compared to sole proprietorships. This in turn gives them a greater capacity, than other business structures, to leverage larger loans for growth (especially when and where equity participation is a condition of their loans). In the BDC dataset, for every dollar BDC loans out, the average incorporated business contributes $0.23. By comparison the average sole proprietor contributes $0.12 for each BDC dollar. Meanwhile, BDC's average loan to incorporated businesses is 3.6 times larger than its average loan to sole proprietors. A similar pattern holds in the ABFP dataset, but it is less pronounced. For every dollar an AFI loans out under ABFP, the average incorporated business contributes $0.32, while the average sole proprietor contributes $0.29. Furthermore, under ABFP the average AFI loan to incorporated businesses is 2.1 times larger than the average AFI loan to sole proprietors.

The difference between the datasets could be due to a number of factors. One potentially important difference is the greater presence of on reserve small businesses in the ABFP dataset. AFIs typically describe themselves as focusing on smaller start up companies[40], particularly on reserve. In the ABFP dataset 62 per cent of loans and non-repayable government contributions went to small business start ups, of which 55 per cent operated on reserve. More broadly, 53 per cent of total loans and non-repayable government contributions involved businesses on reserve. By comparison, 26 per cent of loans in the BDC dataset went to businesses on reserve (whether for start up or expansion). Another important difference between ABFP and BDC is the role of government programs, and the conditions they place on clients to match non-repayable contributions with equity. This dimension is completely absent from the BDC dataset, which does not include non-repayable government contributions.

Nevertheless, both datasets present views of developmental finance services shifting business development away from the national profile presented in CCAB's survey research. In the literature, sole proprietors are closely associated with small loans (< 50k), and limited use of financial sector services. The literature also links sole proprietors to lower rates of government-assisted finance compared to

[40] Beyond the ABFP program, 52 per cent of new AFI loans in 2015 were directed at small business start-ups, compared to 66 per cent in 2014. In terms of loan value, small business start up loans totalled $28.9 million (or 26 per cent of all new AFI loans in 2015). See: www.nacca.ca/downloads/nacca_afi-portrait-2015.pdf

incorporated businesses and, especially community owned businesses and economic development corporations[41].

The goal, however, should not be about replacing sole proprietorships with incorporated businesses or community owned businesses. As we investigate in Modules 1 and 3 of this series, the more complex forms of business, and particularly incorporation, can place considerable demands on client capacity, and introduce a range of business concerns including taxation issues, and so forth.

Moreover, sole proprietors play a vital role in community economic development, as they are frequent providers of local goods and services in Aboriginal communities. Evidence from CCAB suggests that despite the risks associated with small business failures in Canada, Aboriginal sole proprietors are turning profits and maintaining stability. Evidence from research on reserve and in the north also points to substantial opportunities in the local economic sectors frequented by sole proprietors. These opportunities are tied to the ongoing economic leakage that occurs, as Aboriginal communities continue to purchase goods and services from outside their local and regional market areas[42]. While economic leakage is a persistent problem for rural and remote communities, it also presents an opportunity for Aboriginal entrepreneurs to solve.

Sole proprietorships are an important entry point for entrepreneurs, given their relatively simpler start up requirements compared to the steps required for incorporation or the creation of a joint venture or limited partnership. In that relative simplicity is an opportunity for the developmental finance sector to provide supports and incentives for capacity building and business support.

In terms of capacity building, the ABFP and BDC datasets each emphasize different sets of business structures and industry sectors. In the ABFP dataset, over 54 per cent of funds dedicated to business planning and business advisory and support services went to First Nation owned businesses, followed by incorporated businesses at 23 per cent. Over 29 per cent of the total investment in capacity building was also concentrated in the wholesale and retail trade sectors (which together comprise the largest sector for investment in the ABFP dataset). See Table 27.

Table 27: Percentage breakdown of investments in business planning and business advisory and support services, by business structure and industry sector, ABFP (2013-2015)

Industry Sector	First Nation owned	Incorporated business	Partnership	Sole proprietor	Totals
Mining and oil and gas	0.23%	0.00%	0.06%	0.45%	0.73%

[41] While the 2010 CCAB survey found that Aboriginal entrepreneurs generally viewed financial institutions positively, loans from Aboriginal business lending institutions accounted for just 15 per cent of financing used by Aboriginal start-ups. More than half of Aboriginal entrepreneurs noted that they relied on personal savings for their business start-ups, while 17 per cent accessed either business loans/credit from a bank, or credit from other government programs.

[42] See Unama'ki Economic Leakage Final report: *http://*www.unamaki.ca/pdfs/**Economic-Leakage**-Study-Final-Report-August-19-2010.pdf

Other primary sector	10.56%	2.06%	2.46%	1.04%	16.24%
Manufacturing	3.99%	3.76%	0.00%	1.18%	8.92%
Utilities	6.09%	0.00%	0.00%	0.00%	6.09%
Construction	2.69%	1.31%	0.16%	1.06%	5.22%
Wholesale and retail trade	21.76%	1.79%	0.29%	5.69%	29.83%
Transportation and warehousing	0.98%	5.39%	0.32%	0.81%	7.50%
Finance, insurance, and real estate	0.16%	0.24%	0.00%	0.09%	0.49%
Other commercial services	7.74%	8.81%	1.19%	4.99%	23.96%
Health care and education	0.00%	0.20%	0.12%	0.69%	1.01%
Grand total[43]	54.21%	23.55%	4.60%	15.99%	
Grand total (000s)	**$4,602**	**$1,999**	**$390**	**$1,358**	**$8,489**

In comparison, the BDC dataset indicates a clear capacity building emphasis on sole proprietors, with a specific focus on several industry sectors, including manufacturing, construction, and other commercial services. See Table 28. Sole proprietors in this case were the focus of 60 per cent of this investment in business planning, and business advisory and support services.

Table 28: Percentage breakdown of investments in business planning and business advisory and support services, by business structure and industry sector, BDC (2013-2015)

Industry Sector	Incorporated business	Partnership	Sole proprietor	Totals
Mining and oil and gas	5.4%	0.0%	3.6%	9.0%
Other primary Sector	0.0%	0.0%	7.2%	7.2%
Manufacturing	0.0%	3.8%	12.6%	16.4%
Construction	0.0%	5.4%	10.8%	16.2%
Wholesale and retail trade	5.4%	6.3%	4.2%	16.0%
Finance, insurance, and real estate	0.0%	0.0%	5.4%	5.4%
Other commercial services	6.7%	6.8%	15.3%	28.8%
Health care and education	0.0%	0.0%	0.9%	0.9%
Grand total[44]	18%	22%	60%	

[43] Totals may not sum to 100% due to rounding.
[44] Totals may not sum to 100% due to rounding.

Grand total (000s)	**$97**	**$124**	**$418**	**$639**

Insights from the Aboriginal Developmental Lending Assistance program

NACCA launched the Aboriginal Developmental Lending Assistance (ADLA) program in 2014. With funding support from INAC, ADLA compensates eligible AFIs for developmental loan losses and the high cost of developmental loan administration[45]. The compensation is tied to a framework of performance measures that track the risks AFIs take on, as well as the expected outcomes of their developmental lending in their client's community and immediate operating environment.

In addition to covering shortfalls tied to developmental lending, ADLA helps AFIs address pre- and post-loan care costs, such as those associated with client capacity building, business plan development, advisory services, and so forth. ADLA should also be of considerable interest to researchers in the field, as it incorporates a number of data collection tools to support its performance-based approach. These tools provide insight into the risks clients pose, as well as the local impacts AFI developmental finance activities have on community economic development and local job creation. In this section we will focus particularly on the latter. Readers should note however, that the ADLA program presents only a slice of the financing and development activities that AFIs undertake.

A total of twenty-three AFIs qualified to use ADLA programming in fiscal year 2014-2015. In terms of outcomes, $29.6 million in AFI loans, supported by ADLA, created or maintained 2,409 jobs and leveraged matching investments of $50.7 million from Aboriginal businesses, commercial lenders, and government programs. Of particular relevance to this section are the data associated with local job creation and maintenance. These data complement the broader findings of the economic footprint analyses presented earlier for the developmental finance services associated with ABFP and BDC.

As part of this research project NACCA staff provided a custom dataset consisting of 302 randomly selected cases of ADLA supported loans from fiscal year 2014-2015. Each case represents AFI loans along with matching commercial loans, non-repayable government contributions, and client equity contributions. In addition to featuring information about the general purpose of loans, the dataset also describes the industry sectors involved, the client's business structure, and important data on expected outcomes.

These **302** cases of developmental loans, non-repayable government contributions, and client equity totalled **$53.8 million**. Of the total cases involved, $**25.6 million** (or 47.7 per cent) went to businesses for start up costs. An additional **$24.2 million** (or 44.9 per cent) went to businesses for expansion costs; while **$3.9 million** (or 7.4 per cent) went to clients for business acquisitions and buyouts. Given the division of funds, the majority of our information about local impacts therefore derives from activities associated with start ups and business expansion.

Client business structure is another important consideration, just as it was in the ABFP and BDC datasets. In the ADLA dataset, 38.8 per cent of total funds involved incorporated businesses; 34.7 per

[45] Three of the twenty-three AFIs that qualified for ADLA in 2014 also provided NACCA with 2015 audited financial statements. The financial impact of ADLA programming reflected in the three financial statements confirmed that yield on the three AFIs' loan portfolios was boosted by an average of 3.9% from 2014 to 2015 as a direct result of ADLA programming. See: http://www.nacca.ca/downloads/nacca_developmentalfinancingforaboriginalbusinesses_2015.pdf

cent involved First Nation owned businesses; 23.6 per cent involved sole proprietorships; and 2.8 per cent involved partnerships. This breakdown is reminiscent of the ABFP dataset's business structure profile; and it is considerably different from the national profile created by the CCAB in its 2011 and 2015 Aboriginal Business Surveys (in which sole proprietors constituted 61 per cent of Aboriginal businesses). As in the ABFP dataset, the ADLA data particularly highlight efforts to develop incorporated businesses and First Nation owned businesses. See Table 29.

Table 29: Allocation of total funds (000s), by client business structure and use of funds, ADLA (2014-2015)

Use of funds	First Nation owned	Incorporated Business	Partnership	Sole proprietorship	Grand total
Business acquisition		$2,753	$780	$434	$3,966
Business expansion	$5,139	$11,747	$366	$6,914	$24,166
Business startup	$13,539	$6,383	$385	$5,325	$25,633
Totals	**$18,677**	**$20,883**	**$1,531**	**$12,673**	**$53,765**

Looking at the interplay of business structure and use of funds, almost 60 per cent of total funds went to three characteristic groups: First Nation owned start ups (25.2 per cent); incorporated businesses seeking to expand (21.8 per cent); and sole proprietors seeking to expand (12.9 per cent). The insights we glean from the dataset are therefore closely associated to these three characteristic groups of business activity.

Local employment

Among the key variables included in the ADLA dataset is information associated with local job creation and job maintenance. This information is based on estimates that client's make as part of their application for start up, business expansion, or business acquisition loans. The estimates are usually checked by AFI loan officers against their knowledge of the client's business, industry sector, and so forth. It generally provides a reasonable estimate of local employment impacts tied to developmental finance, and is used by NACCA, the AFIs, and federal partners (INAC), as a performance measure.

Looking back at the interplay of business structure and use of funds, we see that the three characteristic groups, which attracted almost 60 per cent of total funds, also contributed over 66 per cent of associated jobs – created or maintained: First Nation owned start ups (16.6 per cent); incorporated businesses seeking to expand (33.4 per cent); and sole proprietorships seeking to expand (16.4 per cent). See Table 30.

Table 30: Breakdown of jobs created or maintained by total investment (loans and equity), ADLA (2014-2015)

Use of Funds	First Nation owned	Incorporated	Partnership	Sole proprietorship	Grand total
Business acquisition		66	10	24	100
Business expansion	114	510	26	251	901

Business startup	254	131	8	135	528
Totals	**368**	**707**	**44**	**410**	**1529**

Of the grand total of jobs expected to be created or maintained (1529), 32.5 per cent related to new jobs, broken down in terms of full time positions (19.9 per cent of the grand total), part time (7.9 per cent), and seasonal (4.7 per cent were). When we look at these estimates through the lens of business structure, we see that over a quarter of the grand total (1529) consists of new jobs created by incorporated businesses or sole proprietorships. See Table 31 and compare with Table 32.

Table 31: Contribution of job creation to total jobs created/maintained, by business structure, ADLA (2014-2015)

	Job creation			
Business Structure	**Full time**	**Part time**	**Seasonal**	**Totals**
First Nation owned	3.7%	0.9%	0.0%	4.6%
Incorporated	8.5%	3.7%	2.7%	14.8%
Partnership	0.6%	0.9%	0.7%	2.2%
Sole proprietorship	7.1%	2.5%	1.3%	10.9%
Totals	19.9%	7.9%	4.7%	32.5%

Evidently, job maintenance plays a larger role in the ADLA dataset than new job creation, as it takes 67.5 per cent of the grand total. See Table 32. Breaking job maintenance down into its components we see that of the grand total of jobs created or maintained (1529), 52.1 per cent involved the maintenance of full time jobs; 12.8 per cent involved the maintenance of part time jobs; and 2.7 per cent involved the maintenance of seasonal jobs. Adding up the results of Tables 31 and 32 we find that the prevailing structure is clearly incorporated businesses, which comprises 46.2 per cent of all jobs created and maintained (14.8 + 31.4).

Table 32: Contribution of job maintenance to total jobs created/maintained, by business structure, ADLA (2014-2015)

	Job maintenance			
Business Structure	**Full time**	**Part time**	**Seasonal**	**Totals**
First Nation owned	14.5%	4.8%	0.2%	19.4%
Incorporated	26.6%	3.3%	1.5%	31.4%
Partnership	0.3%	0.2%	0.2%	0.7%
Sole proprietor	10.7%	4.5%	0.8%	16.0%
Totals	52.1%	12.8%	2.7%	67.5%

Leverage

From a community economic development perspective, an important goal for AFIs is to maximize the leverage of their loans. In this context leverage refers to each AFI loan's capacity to attract client equity, commercial loans, and non-repayable government contributions. The larger the leverage, the bigger the AFI loan's economic impact. Looking at Table 33 below, we see that the biggest opportunities for leverage are associated with First Nation owned businesses. On average, every AFI dollar invested in a First Nation owned business was matched by $135.56. The underlying data however include several

outliers: three where matching funds are between $15 and $35 for every AFI dollar, and one where $2,102 were matched for every AFI dollar. Removing these outliers drops the average to $2.02 for every AFI dollar which falls in line with findings from the other featured business models. By comparison, the average leverage for an AFI dollar invested in the other featured business models ranges between $2.05 and $2.61. Digging deeper into the ADLA dataset we find that industry selection has an important role to play. If we pull out investments associated with wholesale or retail trade, for example, the average AFI dollar invested in a First Nation owned business gets matched by $7.09.

Leverage is relative. From the client's point of view, the idea of leverage takes on a different meaning as it matches their equity with loans from AFIs and the commercial sector along with any non-repayable government contributions. From this vantage point it is no longer the First Nation owned business that provides the best bang for the buck, but sole proprietorships. On average, every client dollar invested in a sole proprietorship was matched by $18.62. By comparison, the average leverage for a client dollar invested in the other featured business models ranges between $13.70 and $17.35 – the latter being associated with a First Nation owned business.

The generalizability of these patterns is certainly open to question. At only a year's worth of cases (2014-2015) and based on data from 23 AFIs, the ADLA dataset we have available is exploratory and suggestive. By comparison, the leverage exhibited for key lenders and clients in the ABFP and BDC datasets is considerably smaller. Compare Table 33 and Table 34. In the case of AFIs in the ABFP, their average leverage ranges from $1.12 to $2.52; while BDC's average leverage ranges from $0.10 to $0.47. Furthermore, client leverage in the ABFP and BDC datasets is on average around $10 less what the ADLA data would suggest.

Table 33: Comparing developmental lender's leverage across ABFP, BDC, and ADLA, by business structure

Business structure	Developmental lender's leverage (average)		
	ABFP (AFIs)	BDC	ADLA (AFIs)
First Nation owned	$2.52	N/A	$135.56 ($2.02 without outliers)
Incorporated	$1.26	$0.47	$2.18
Partnership	$1.49	$0.10	$2.05
Sole proprietor	$1.12	$0.30	$2.61

Table 34: Comparing client leverage across ABFP, BDC, and ADLA, by business structure

Business structure	Client leverage (average)		
	ABFP	BDC	ADLA
First Nation owned	$3.85	N/A	$ 17.35
Incorporated	$5.86	$4.00	$ 14.56
Partnership	$5.71	$5.60	$ 13.70
Sole proprietor	$6.07	$7.21	$ 18.62

Policy parameters – jobs versus leverage

Obviously the economic impact associated with ADLA's total investment goes beyond simply creating or maintaining jobs. As we saw earlier in our economic footprint analyses of ABFP and BDC's Aboriginal portfolio, the vast majority of associated expenditures went to capital investments. Looking at total investment divided by jobs in the ADLA dataset nevertheless presents some potentially useful information about strategic trade-offs. See Table 35.

If one's developmental finance strategy was focused on jobs over capital investment, it might be more conducive to concentrate on sole proprietors rather than a First Nation owned business, corporation, or partnership. At least this is what the average investment scenario suggests, based on the ADLA dataset. In this context, sole proprietors require significantly smaller loans and matching funds to create or maintain jobs; although the quality of those jobs (in terms of income and benefits) is another set of factors that would need to be considered.

On the other hand, a community economic development strategy focused on maximizing leverage would likely prefer the First Nation owned business (based on the outlier scenario), with its substantial matching investments. In this context there could be substantial direct and indirect economic benefits from this approach, due to investments in construction and demand for goods and services from regional suppliers. However, as we saw in the ABFP and BDC impact models, a substantial portion of capital investment typically leaks out of the region (and country) due to imports for machinery and equipment, and the need for specialized expertise and labour; and this leakage would need to be carefully considered before any real conclusions could be drawn about the local impacts of capital investment.

Table 35: Average loan size, equity, leverage, and total investment/jobs, by business structure, ADLA (2014-2015)

Business Structure	Averages (000s)			
	AFI loan	Equity	Matching	Total investment/jobs
First Nation owned	$128	$279	$898	$99
Incorporated	$86	$46	$147	$80
Partnership	$56	$55	$152	$78
Sole Proprietor	$45	$21	$67	$39
Averages	**$70**	**$53**	**$168**	**$59**

Conclusion

Aboriginal entrepreneurs and community-owned SMEs alike work with many of the same financial institutions that specialize in Aboriginal developmental finance. Developmental finance is a general term for financing approaches that specialize in serving entrepreneurs and SMEs who would typically be passed over by conventional banks. The diverse field of service providers includes the Business Development Bank of Canada (BDC), and a range of Aboriginal Financial Institutions (AFIs), from Aboriginal Capital Corporations to Community Futures Development Corporations.

In Research Module 2 we investigated the countrywide economic footprints and equity participation parameters associated with leading Aboriginal developmental finance services, including the Aboriginal Business Financing Program (ABFP) and the Business Development Bank of Canada's Aboriginal portfolio (BDC). A third set of services, the Aboriginal Developmental Loan Assistance (ADLA) program was used to investigate local economic impacts, in particular job creation, and prospects for community economic development.

Given that the funds directed at capital investment comprised by far the largest share of loans, non-repayable contributions, and client equity represented in our countrywide economic footprint analyses, their associated patterns of business activity have the greatest influence on our assessment of impacts. As is the case when most Canadian businesses make capital investments, the associated spending typically involves considerable economic leakage due to imports of machinery and equipment. In the case of the ABFP dataset, almost 45 per cent of total capital investment ($189.6 million) flowed out of the country for imports; while in the BDC dataset international imports took 36 per cent of total capital investment ($87.65 million).

In terms of impact, for every dollar AFIs lent to clients for capital investment under ABFP, about $3.6 was added to GDP, thanks, in addition, to matching funds (associated with other lenders, client equity, and non-repayable government contributions). By comparison, for every dollar BDC lent to clients for capital investment, about $1.15 was added to GDP, thanks, to a smaller extent, to matching funds (associated with other lenders and client equity).

The difference in relative GDP impacts is closely tied to the forces driving developmental finance in each case. In the case of the ABFP dataset, AFIs are a prospective business client's point of contact for accessing the ABFP and related developmental finance services; but, in terms of total investment, AFI lending constitutes only 18.9 per cent of total investments associated with the ABFP. In the case of BDC's Aboriginal portfolio, BDC is the prospective client's point of contact, and its lending also constitutes 70 per cent of the portfolio's total investment capacity.

The AFIs' capacity to attract substantial matching funds is a testament to their abilities as developmental lenders. In particular, it highlights their skill at brokering financing arrangements between other lenders, clients, and government programs. The risk they face, however, is being potentially over-reliant on external partners; which can lead to capital shortfalls when government programs withdraw contributions, or when other commercial lenders decide to pursue other opportunities. Such risks threaten to undermine the economic impact they can make.

In terms of a perspective on local economic impacts, our investigation of the ADLA dataset encountered some potentially useful information about strategic trade-offs. The ADLA data show that if one's developmental finance strategy was focused on jobs over capital investment, it would be more profitable to concentrate on sole proprietors rather than on First Nation owned businesses, corporations, or partnerships. At least this is what the average investment scenario suggests, based on the ADLA dataset. In this context, sole proprietors require significantly smaller loans and matching funds

to create or maintain jobs; although the quality of those jobs (in terms of income and benefits) is another set of factors that would need to be considered.

On the other hand, the ADLA data also show that a community economic development strategy focused on maximizing leverage would likely prefer to focus on First Nation owned businesses, with their substantial matching investments. In this context there could be considerable direct and indirect economic benefits from this latter approach, due to investments in construction and demand for goods and services from regional suppliers. However, as we saw in the ABFP and BDC impact models, a substantial portion of capital investment also leaks out of the region (and country) due to imports for machinery and equipment, as well as expertise and skilled labour; and this leakage would need to be carefully considered before any real conclusions could be drawn about the local impacts of capital investment. The key lesson is that development financing decisions are based on policy trade-offs, and there is no best option in general.

Research over the past 15 years has repeatedly observed that many Aboriginal businesses in Canada have limited equity to finance their projects or attract private investors. While lenders catering to Aboriginal businesses may provide different means for clients to access financing, in many cases where a business is remote or on reserve, up front equity participation continues to play an important role in securing loans. The ABFP and BDC datasets reveal several relevant equity participation parameters for Aboriginal entrepreneurs and SMEs. Broadly speaking, these parameters can be grouped under the following three categories:

- Aboriginal identity and location;
- Industry selection; and
- Business structure and capacity.

The Aboriginal identity and location of the business client both have an important influence on the size of loans and matching equity. Specifically, First Nation businesses on reserve and Inuit owned businesses stand in sharp contrast to off reserve First Nation, Métis, and non-status Aboriginal businesses.

Overall, the Inuit and on reserve First Nation client groups contributed over 80 per cent of client equity in the BDC dataset. Yet they made up just 12 per cent of the total number of businesses, and received just over 31 per cent of total loans (BDC plus other commercial loans). While equity participation appears to be critical for Inuit clients and for First Nation clients on reserve, it is not as apparent a condition for clients who are less remote and off reserve. The latter group typically possesses assets which are less constrained by issues such as remoteness or the complicated property rights systems associated with reserves and other Aboriginal landholding arrangements (e.g., as under the Nunavut Land Claims Agreement). They also tend to be larger in size.

All in all, the rates of equity participation in the ABFP dataset are considerably higher for most business structures than in the BDC dataset, regardless of whether they are on or off reserve. This suggests that client equity may be more important for securing AFI loans than for BDC, but it also reflects conditions

for accessing the ABFP's non-repayable government contributions[46], which require matching funds from clients. In particular, First Nation owned businesses make the greatest use of equity participation to secure loans compared to other business structures on reserve.

Industry selection is another equity participation parameter evident in the BDC and ABFP datasets. Industry selection represents the fact that officers of developmental finance services make loan decisions based – in part – on information they receive about the performance of different industry sectors and the expected risks and returns of associated business opportunities.

The top four industry sectors, by total loans and client equity, are similar for the BDC and ABFP datasets, except that BDC includes manufacturing while ABFP includes accommodation and food services. The common sectors include: retail trade; construction; and agriculture, forestry fishing and hunting. Within each dataset, different investor groups – lenders, government programs, and clients – have distinct preferences for industry sectors where they play leading roles. For example, AFIs in the ABFP dataset play leading roles in mining and oil and gas extraction, and transportation and warehousing, while other commercial lenders play leading roles in manufacturing and arts, entertainment, and recreation.

The future looks promising for Aboriginal business growth in Canada. Despite current turmoil in the global economy, the longer term macroeconomic picture is favourable. The Conference Board of Canada predicts that Aboriginal communities and businesses are poised to benefit from an expected wave of major project investments over the coming decade, totalling over $342 billion in the natural resources sector alone[47].

In particular, the Conference Board's outlook for growth in the metal and non-metal mining industries is favourable; and we used this sector as an example of opportunities for developmental finance. For Aboriginal business, the opportunity that mining presents extends beyond local employment benefits. Mining companies have significant capital requirements for machinery and equipment. They also have significant needs for a broad range of support services, from accounting and legal services, catering and site management, to equipment repair and maintenance, among others. These opportunities along mining sector supply chains help support business development for a number of small and medium sized enterprises.

Such opportunities can be particularly pronounced when impact and benefit agreements have been reached between industry and local Aboriginal groups. For example, from 1996 to 2011 three major diamond mining companies operating in the Northwest Territories spent $4.2 billion on Aboriginal companies along their supply chains[48]. On average that kind of investment amounts to $280 million per year. As represented in the BDC and ABFP datasets however, the mining and oil and gas sectors have not been the target of considerable investment. In the ABFP data set, total investment in the mining and oil

[46] See for example: http://advisoryservices.ca/wp-content/uploads/2011/06/ABDP-info-sheet.pdf
[47] See: http://www.conferenceboard.ca/e-library/abstract.aspx?did=7651
[48] http://mining.ca/sites/default/files/documents/MeasuringSuccessDiamondBenefitstoNWTMarch2013.pdf, p. 4.

and gas sector from 2013 to 2015 was only 2 per cent of the total $202 million. Similarly, in the BDC dataset, the mining and oil and gas sector represented 3 per cent of the total $113.9 million invested over the same two year period. (The average of any given industry sector's share of the ABFP total was 4 per cent, while in the BDC dataset it was 5 per cent).

Although the ABFP and BDC datasets both feature a variety of business structures, the most frequent are sole proprietors and incorporated businesses. In the BDC dataset, sole proprietors are associated with 57 per cent of loans, followed by incorporated businesses at 25 per cent. In the ABFP dataset the order is reversed, with 41 per cent of loans associated with incorporated businesses, followed by sole proprietors at 25 per cent. In terms of the general landscape of Aboriginal business, CCAB survey data from 2010 and 2015 suggest that sole proprietors make up around 61 per cent of Aboriginal businesses in Canada. In this context, the developmental financing activities in the ABFP dataset in particular appear to be focusing on more complex business structures in a landscape that's still dominated by sole proprietors. (This profile is similar for the ADLA program).

Nevertheless, sole proprietors play a vital role in community economic development, as they are frequent providers of local goods and services in Aboriginal communities. Evidence from CCAB suggests that despite the risks associated with small business failures in Canada, Aboriginal sole proprietors are turning profits and maintaining stability. Evidence from research on reserve and in the north also points to substantial opportunities in the local economic sectors frequented by sole proprietors. These opportunities are tied to the ongoing economic leakage that occurs, as Aboriginal communities continue to purchase goods and services from outside their local and regional market areas[49]. While economic leakage is a persistent problem for rural and remote communities, it also presents an opportunity for Aboriginal entrepreneurs to solve.

Yet, while many AFIs remain dedicated to a regional clientele of small entrepreneurs and SMEs, others are seeking out ways to grow their range of services and reduce the role of government-assisted financing. These AFIs are helping Aboriginal businesses attract additional financing and private equity. They are also advising Aboriginal businesses on how to successfully negotiate buyouts and engage in joint ventures and limited partnerships. At the same time, Aboriginal trusts and related investment funds are looking for opportunities to invest in the Aboriginal business sector and related economic infrastructure. AFIs have also been busy developing new ways to work together, and with partners like BDC, to make larger loans available beyond the constraints of assisted financing programs. In short, their financial ecosystem continues to develop in response to changing times.

[49] See Unama'ki Economic Leakage Final report: *http://*www.unamaki.ca/pdfs/**Economic**-**Leakage**-Study-Final-Report-August-19-2010.pdf