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Getting Together

First Nations and Capital Markets

Discussion Paper



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Ottawa Office

1405 - 130, rue Albert Street
Ottawa, ON, Canada, K1P 5G4
Tel/Tél: 613.238.7160
Fax: Téléc: 613.238.7990

Toronto Office

MaRS Discovery District
401 – 101 rue College St,
Toronto, ON, Canada, M5G 1L7

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WHY A ROUNDTABLE?

A fresh approach is needed to ease a major problem confronting First Nations communities: namely, how to gain wider access to the mainstream capital markets essential to an expanding economy.

Attention has focused up to now on the financing needs of relatively small businesses. But First Nations' growing interest in acquiring stakes in large private-sector projects, including, among others, oil and gas, mining and pipeline opportunities – often worth hundreds of millions of dollars – adds a more challenging dimension. Access to larger scale commercial financing – often in the range of tens of millions of dollars – is required to enable First Nations to realize meaningful financial participation in such projects. Can the gap between First Nations and capital markets be bridged? Recent events give cause for both optimism and uncertainty.

In one clear sign of investor confidence, the First Nations Finance Authority has floated a \$90 million public bond issue, the first ever backed by Aboriginal governments. Yet even such a promising development does little to close the estimated \$43.3 billion capital gap between mainstream Canada and First Nations and Inuit communities and businesses.¹ Furthermore, a landmark Supreme Court of Canada ruling in June 2014 granting Aboriginal title to the Tsilhqot'in First Nation over more than 1,700 square kilometres of land in B.C. will have wide -- but so far, unclear -- implications for outside investors.²

The forthcoming roundtable, organized by the Public Policy Forum, will bring together a diverse group of leaders and experts. The starting point will be a frank discussion of the undoubted opportunities for investors in First Nations projects and businesses, as well as the barriers – legal, economic and social – that still impede large-scale investment.

The goal is to come up with solutions. Research for this paper, including interviews with a diverse group of experts, suggests that one of the most promising avenues for progress is partnerships of various kinds between First Nations and outside investors, with or without government support. However, the research also confirms a significant degree of uncertainty and even frustration on all sides that must be overcome if mainstream capital is to flow to First Nations in significant volumes.

¹First Nations and Inuit received one-tenth of 1% of the \$1.84 trillion of the market capital at work in Canada's economy in 2003. Based on population, these communities would have needed an extra \$43.3 billion in funding to put them on the same financial footing as businesses in the rest of Canada.

² Tsilhqot'in Nation v. British Columbia: <http://scc-csc.lexum.com/scc-csc/scc-csc/en/14246/1/document.do>

The stakes are high. A practical and realistic action plan would smooth First Nations access to capital markets, giving a sizeable boost to communities' economic and social development. Conversely, failure to recognize each others' concerns carries the risk of missing out on the vast potential of First Nations physical and human resources.

KEY POINTS FOR DISCUSSION

This roundtable will focus on access to capital markets to meet the needs of a growing number of First Nations businesses and communities seeking financial participation in projects that can be valued in hundreds of millions of dollars. Based on the analysis below, we propose the following key issues and questions for discussion:

- **First Nations opportunities:** What are the advantages to outside investors of a large-scale First Nations investment? What commercial benefits and rates of return do those investors expect?
- **Potential sources of capital:** Which sources of large-scale private capital hold most promise for First Nations? What targeted interventions, if any, will be needed from governments to attract this capital?
- **Risks and uncertainties:** What are the drivers of real and perceived risk for private-sector investment in projects involving on-reserve businesses? Which of these risks can be most easily mitigated? Which are the most intractable?
- **Partnerships:** Given the success of numerous collaborative ventures between First Nations businesses, outside investors and government, how can more such arrangements best be facilitated for large and complex transactions?
- **The road ahead:** What actions are required of each party – governments, financial institutions, private-sector investors and First Nations communities -- to improve access to large-scale commercial financing?

OPPORTUNITIES ABOUND

The potential for sizeable and rewarding investments in First Nations companies and projects has expanded markedly over the past decade.

Land settlements, new revenue streams and a string of mining, energy and other resource projects have brought a vast improvement in the financial health of many First Nations communities. There are over \$315 billion identified major resource developments in or near Aboriginal communities in Canada. Roughly 1,200 Aboriginal communities are located within 200 km of 220 principal producing mines and 3,000 mining exploration projects. The recent Supreme Court decision will play a significant role in determining how these projects and communities move forward.

There are many known projects resulting from First Nations collaboration with outside companies and financial institutions supported by mainstream financing (see examples below). Partnerships of this nature are the most promising route so far for First Nations to gain access to mainstream capital – especially in large amounts.

Based on a 2014 survey in Ontario, the Canadian Council of Aboriginal Business believes that “building bridges with other larger, successful ventures (Aboriginal or non-Aboriginal) is a key growth strategy for Aboriginal entrepreneurs. Not only can this provide access to much-needed capital, but it is an opportunity to take advantage of other forms of collateral that can flow from partnerships, such as training and experience, mentoring and advice, equipment, physical location or a skilled workforce”.

Partnerships offer Aboriginal firms an entry point to large-scale projects that would otherwise be beyond their financial and management capability. Non-Aboriginal partners benefit by gaining access to new markets, building useful contacts, and qualifying for affirmative action programs.

First Nations have secured (or been offered) participation in a growing number of substantial mainstream ventures. Among them:

- Saskatchewan-based First Potash Ventures is a joint venture between Muskowekwan First Nation, Muskowekwan Resource Ltd and Encanto Potash Corp. The venture is based on a potash deposit currently owned by Encanto that covers 61,400 acres on Muskowekwan First Nation lands. The group plans to build a mine at a cost of close to \$3 billion that would come on stream in early 2020 with a lifespan of more than 50 years. The First Nation has the potential to earn a 5% equity stake, plus royalties.
- A consortium of First Nations investors are the majority shareholders of First Nations Bank of Canada, a chartered bank. The bank started in the mid-1990s as a joint venture between Toronto-Dominion Bank and Saskatchewan Indian Equity Foundation. TD sold its controlling interest in 2009. First Nations Bank’s loan portfolio stood at \$244.9 million on October 31 2013, up almost 8% from a year earlier. The growth was fuelled mainly by business loans and mortgages. Interest income totaled \$11.3 million in fiscal 2013.
- Lac Seul First Nation in north-west Ontario has acquired a 9.9% stake in Aucrest Gold, a junior mining company with operations in Lac Seul’s traditional territory. The community’s stake could rise to 15.6% if it exercises all its warrants to buy extra shares.
- Some communities -- among others, the Osoyoos Indian Band in British Columbia, Saskatchewan’s La Ronge First Nation, and the Membertou and Millbrook First Nations in Nova Scotia -- have forged significant links with outside investors and financial institutions. For example, the Community of Membertou has reached out to non-Aboriginal institutions and businesses by setting up a corporate office in Halifax, far from its Cape Breton reserve. It has forged partnerships with a number of local businesses in sectors such as tourism, fisheries, oil and gas, and aerospace. The community has also put considerable effort into improving the transparency and accountability of its governance structures. It is the world’s first Aboriginal government to qualify for the ISO:9001 designation, the international standard for quality management.

Enoch First Nation Bond Issue -- A Case Study

A casino owned by Enoch Cree Nation raised \$200 million in a cross-border bond issue in January 2014, marking the first time that a First Nations business has raised funds in the public markets without an explicit government guarantee.

The issue, which took four years to structure and negotiate, says much about the opportunities and challenges that First Nations face in mainstream financial markets.

Enoch First Nation wanted the funds to buy out its partner in the River Cree casino, on the outskirts of Edmonton. The casino is one of the biggest in Alberta.

“We tried to deliver the investment package in a form that investors are used to seeing”, says Ed Giacomelli, managing director at Crosbie & Co, a Toronto-based investment bank that advised Enoch Cree Nation.

Thus, the underwriters included three of Canada’s big five banks -- Toronto-Dominion, Bank of Montreal and Bank of Nova Scotia. Standard & Poor’s gave the issue a B- credit rating, equivalent to a high-yield corporate bond.

Numerous safeguards were included to reassure investors. An outside casino operator was hired to manage the business, and the borrowing entity was set up to be at arm’s length from Enoch Cree’s chief and council. A majority of the board of directors -- including two non-aboriginals -- are independent of Enoch Cree.

US investors took the view that the bond issue represented a lower risk than aboriginal-owned casinos in the US.

Even so, Mr Giacomelli said that educating investors was a lengthy process. “In some cases, lending on reserve is not the same as lending in other elements of the economy”, he said. “Some investors just weren’t ready for it”, he said. “Some didn’t like the optics of a financial dispute heading into litigation with a First Nations group.

However, “those that took the time got comfortable with the fact that it was in Enoch’s interest to always keep the casino open. The lenders just want to get their money back with interest. They’re not like an equity partner looking to hit a grand slam.”

A lesson for First Nations, Mr Giacomelli says, is to beware of promoters who promise quick fixes to financing challenges. “There’s an under-appreciation for independent advice”, he notes. “The risk that (First Nations) take is that they charge too quickly in a direction, not being well enough prepared, and then have to redouble their efforts in order to get it back on track.”

Mr Giacomelli adds: “There’s a wealth of opportunity out there. You see a lot related to natural resources, but there are also secondary, spin-off opportunities available.” But he also notes that not all First Nations are equal in terms of economic potential, and any financing deal needs to take account of delicate social issues.

This progress is unfolding against the backdrop of an expanding cohort of Aboriginal entrepreneurs, both on and off reserves. According to the 2011 Aboriginal Business Survey, the number of self-employed First Nations people rose by almost a third between 2001 and 2011, about twice as fast as the non-Aboriginal population. First Nation entrepreneurs also tend to be younger than their non-Aboriginal counterparts.³

And contrary to widespread perceptions, many First Nations businesses and communities can point to sturdy financial performance. Bankers typically confirm that Aboriginal clients have a strong repayment record.

Oil and gas, mining, forest-products, renewable energy and pipeline companies have increasingly set their sights on projects on reserves or in areas where First Nations claim title. Other businesses, such as financial institutions, see opportunities in the fast-growing Aboriginal population, whose living standards and level of education are likely to improve markedly in coming decades.

At the same time, the corporate social responsibility movement is encouraging mainstream businesses to pursue partnerships and other forms of collaboration with Aboriginal communities and institutions.

The Inuit Experience

The potential for Aboriginal businesses' access to large-scale capital is illustrated by the experience of Inuit communities, which face many of the same challenges as remote First Nations reserves but are not subject to the same legal constraints. "I think we've been given a good hearing coming forward with good business propositions", says Gerry Roy, the Inuvialuit Regional Corporation's chief legal officer. The corporation and affiliates such as the Inuvialuit Petroleum Corporation and the Inuvialuit Development Corporation have been able to secure sizeable loans from mainstream institutions by putting up collateral in the form of securities, real estate and other assets. Another IRC arm, the Inuvialuit Investment Corporation, controls a \$343 million (April 2013) investment portfolio that has its origins in a 1984 land-claim settlement. The board of the investment arm includes a retired president of Toronto-Dominion Bank and Bank of Nova Scotia's deputy head of global capital markets. It also seeks to bridge the gap between north and south by working closely with a Toronto-based investment advisor, Bell Kearns & Associates.

³ The median age range for a First Nation entrepreneur in 2006 was 35 to 44, compared with 45 to 54 for others. The difference in self-employment rates between First Nations and non-aboriginal populations declined from 8.4 percentage points in 2006 to 7.8 percentage points by 2011.

INVESTORS ALSO SEE RISK AND UNCERTAINTY

No commercial venture can survive, much less flourish, without access to affordable financing, whether in the form of debt or equity. Stock markets, private equity funds, individual investors, banks and leasing companies -- among others -- fulfill this function in the mainstream economy through decisions based on their perceptions of the balance between risk and reward.

These providers of capital have so far had a minimal presence in funding First Nations businesses and projects, thereby hampering overall economic development, especially on reserves. Most financing still involves some form of government support. The share of capital provided with government support has been estimated as being eight times higher for First Nations and Inuit communities than mainstream Canada.

The Canadian Council of Aboriginal Business reported earlier this year: "Access to financing remains a significant barrier to growth."⁴ There is no shortage of evidence to support this conclusion. The private-sector makes up 95% of investment in the overall Canadian economy, with less than 5% coming from government sources. Yet these trends are reversed on reserve, where the private sector accounts for less than 40% of capital investment.

A variety of barriers have discouraged outside investors. Some stem from laws, regulations and practices that restrict private-sector investment in ways not found in the mainstream economy. Others are the result of deep-rooted economic and social factors, including -- among others -- poor educational outcomes on reserves, limited infrastructure, and communities' unfamiliarity with sophisticated credit and equity markets.

To make matters worse, providers of capital on one hand and First Nations on the other all too often take the view that much of the fault lies with the other side. One senior banker said that his group would have a significantly bigger exposure to Aboriginal business if entrepreneurs were better acquainted with the services that banks offer. On the other hand, some Aboriginal leaders contend that the investment risk in their communities is far lower than many outsiders assume.

Whatever the truth of these perceptions, the bottom line is that financial markets still see a significant degree of risk and uncertainty in First Nations ventures, especially those in remote areas. Investors either refuse to participate at all, or demand a higher-than-normal return in the form of high interest rates, special guarantees and unusually stringent conditions.

⁴ Canadian Council of Aboriginal Business, *Promise and Prosperity*, Ontario Aboriginal Business Survey, 2014.

BARRIERS TO MARKET CAPITAL

Any discussion of obstacles to private-sector financing of First Nations commercial ventures needs to take account not only of legal and regulatory impediments, but also of a number of wider issues. These include -- but are not limited to -- sound governance practices, physical infrastructure and availability of suitable management and other expertise.

Interviews and written research suggest that the main drivers of the extra risk and cost associated with First Nations investments are the following:

- Echoing many others, the Credit Union Central of Canada said in a recent brief that “the federal Indian Act and its restrictions on the seizure of on-reserve property represents the single greatest obstacle to providing financial services to First Nations communities”.⁵
- The long-term viability of many First Nation businesses and projects depends heavily on the volatile and unpredictable resources sector.
- Many First Nations communities are reluctant to take in significant equity partners. While this allows them to retain full control of their businesses, they forfeit the opportunity for growth and outside expertise.
- Many First Nations communities struggle to develop the financial literacy and business management expertise to deal with government agencies, commercial lenders and equity investors. While First Nations’ knowledge of local resources is extremely valuable, it needs to be complemented by technical capacity and financial expertise.
- Conversely, many private investors have a limited understanding of First Nations’ economies, customs and business opportunities. The remote location of many reserves raises costs for potential investors and exacerbates their unfamiliarity with local conditions.
- Equity investors have limited options should they wish to sell or reduce their stake in a First Nations venture. In other words, finding buyers is not easy.
- Limited infrastructure, especially on reserves, poses a significant challenge for new projects, and thus for potential investors. Businesses, especially larger ones, require amenities such as paved roads, serviced lots and industrial-scale water and sewage supplies that their counterparts in other parts of the country take for

⁵ Section 89 of the Act stipulates that the personal property of a band or band member is not subject to “charge, pledge, mortgage, attachment, levy, seizure distress or execution in favour or at the instance of any person other than an Indian or a band”. The primary goal of section 89 was to set aside reserve lands as a place of refuge for a First Nations person or a band that wanted to protect on-reserve property from seizure by non-native creditors. But the provision has had the unintended consequence of making it difficult for on-reserve borrowers to put up the collateral typically demanded by commercial lenders. It also means that while First Nations land may have high historical and cultural value, its commercial value is usually low.

granted. Under-developed public services, such as community buildings, fire-fighting services and health amenities, also deter outside investors.

- Lucrative, short-term business opportunities all too often pre-empt more stable, long-term development. Thus, outside investors may rush to put money into a trailer park rather than devote the time, effort and money needed to assess the same piece of land's mineral potential.

FACILITATING PARTNERSHIPS

As mentioned on page 3, the most promising route so far for First Nations to gain access to mainstream financing has been through various forms of collaboration with outside companies and financial institutions. And both government and the private sector can play a role in facilitating more partnerships, and on a broader scale.

Outside financing of on-reserve businesses -- whether in the form of debt or equity -- falls into three main categories:

- Developmental -- or subsidized -- financing is almost exclusively the preserve of Aboriginal financial institutions (AFIs) and government grant and contribution programs. AFIs have also started to syndicate loans among themselves, enabling them to make larger loans available.

There is little activity on the developmental equity side in the absence of government-funded venture capital funds to channel investment into relatively high-risk businesses.

- Assisted financing, where the government provides incentives to private sector lenders and equity investors, typically in the form of guarantees and loan-loss reserves in the case of loans, and tax incentives (similar to those for labour-sponsored venture capital funds) for equity investments.

While assisted financing rose in the mainstream economy between 1975 and 2003, it fell during the same time period for First Nations and Inuit businesses. The gap in assisted financing between the First Nations and Inuit population and mainstream Canada has been estimated at almost \$900 per capita, requiring an additional \$700 million to bring levels up to parity.

Some Aboriginal businesses -- often community owned and in the oil, gas and other resource sectors -- have shown an interest in outside equity investment, at least partly funded by the federal government. But a formal mechanism to channel such investments to Aboriginal businesses, such as the labour-sponsored funds in the private sector, has yet to be devised.

- Full-fledged commercial financing with no direct government support. This type of financing, both debt and equity, remains constrained by the barriers described above.

Partnerships between banks and credit unions on one hand and AFIs on the other are seen as one way of expanding commercial loan business. Some AFIs

have sought to give their clients access to working capital loans through three-way relationships between themselves, their client and a chartered bank. Under this arrangement, the client sets up an operating line with a bank, the AFI secures the line, and the bank gives the AFI access to relevant account information.

Facilitating Partnerships

Selected Examples

First Nation Regeneration Fund

The First Nation Regeneration Fund, set up by British Columbia's Tale'awtxw Aboriginal Capital Corporation, Tribal Resources Investment Corporation, Ecotrust Canada and the federal government, provides loans to First Nations seeking to acquire ownership in renewable energy projects. The loans are repaid from royalties and dividends earned from the projects. (Ecotrust Canada has subsequently withdrawn from the fund.)

Indigenous Business Australia

Established in 1990, Indigenous Business Australia is a commercially-focused federal Crown Corporation. It has been recognized internationally for its success in promoting self-management, self-sufficiency, and economic independence for Indigenous partners by building and maintaining sustainable investments. It issues grants, offers a variety of loan products, purchases debt and equity securities, and enters into investment partnerships. The agency's equity investment portfolio was valued at A\$206 million at the end of June 2013, with indigenous investors owning combined equity interests of A\$80 million. The investment portfolio generated over A\$4 million in distributions to indigenous partners in fiscal 2013.

Indian Business Corporation and AltaGas

The Alberta-based Indian Business Corporation (IBC) unveiled a deal with AltaGas Ltd in June 2014 under which AltaGas has provided an interest-free \$500,000 loan to help finance on-reserve businesses. Like other Aboriginal financial institutions, IBC was originally funded by the federal government. However, Ottawa has phased out "top-ups" of capital in recent years. Explaining the arrangement with AltaGas, Rob Rollingson, IBC's general manager, says: "We took the view that the less we have to rely on government, the better off we are."

The outlook for commercial equity investment is more clouded, given intense competition for funds and investors' perception of the risks. For the time being, prospects for such investments appear to be confined to a small number of high-profile projects and to entrepreneurs with proven records.

Recent experience in Canada and elsewhere suggests that all these mechanisms have a role to play in enhancing Aboriginal entrepreneurs' access to financing.

THE ROAD AHEAD

All players need to confront difficult questions and decisions if First Nations are to secure rewarding long-term access to large-scale debt and equity markets.

Investors and mainstream financial institutions

Banks and credit unions already actively court First Nations business. Domestic banks have active, though small, Aboriginal banking units. The credit union movement sees a huge opportunity to bring its co-operative model to the Aboriginal population, to mutual benefit. Many credit unions are located near rural reserves, or have already developed strategies to provide services to the urban Aboriginal community.

But this business centres mostly on retail and small commercial customers. The reality is that many mainstream providers of capital, whether lenders or equity investors, still see a significant risk in participating in large-scale First Nations ventures.

In this respect, perception can play as big a role as reality in making or breaking deals. Fresh initiatives that build mutual trust and understanding would be an important step forward.

First Nations leaders

Some First Nations leaders have forged valuable connections with mainstream businesses, including financial institutions. They serve as directors of major public companies, giving them access to networks far beyond the reserves. Aboriginal financial institutions have gained similar expertise and market knowledge through broadening their networks.

Even so, First Nations leaders need to do more to engage capital market participants, and thus move beyond the continuing dependence on government assistance. Communities will gain wider access to financing only if their leaders lay the groundwork in the form of improved infrastructure and institutional support, and -- where appropriate -- a legal and regulatory framework conducive to business and investment.

There is also a need to deepen communities' financial expertise, which can be as critical to stable financing arrangements as actual capital flows. Business training and counselling is expensive, but is widely recognized as one of the most effective ways of mitigating risk. First Nation leaders and financial institutions can work together to play a crucial role in this area.

First Nations entrepreneurs

Partnerships can be valuable catalysts not only for starting businesses but -- even more important in the context of this roundtable -- for expanding them. A receptive

environment for outside partners would help attract larger volumes of both equity and debt capital, as well as open numerous other doors for First Nations communities and businesses.

As Lori Ann Roness Consulting put it in 2010: “They enable Aboriginal businesses to qualify for contracts that they would not otherwise be able to qualify for. They provide access to partner resources, new opportunities, new markets, capital, and technology, employment, job creation, knowledge transfer, role modeling and mentorship, capacity and skills development, revenue generation, sharing of responsibility and risk, training, de-bunking myths and stereotypes about Aboriginal people, demonstrating the capacity and potential of Aboriginal people and communities, supporting the growth of Aboriginal business and business expertise, diversity, providing authenticity, legitimacy, and credibility, and adding value and strengthening ties.”

Aboriginal financial institutions (AFIs)

It is widely accepted that AFIs can and should be key players in improving First Nations access to market capital, as well as delivering government business development programs. However, a Growth Connections report, commissioned by Aboriginal Business Canada, concluded in 2007 that “AFIs individually, and the network as a whole, need to be strengthened significantly with respect to the consistency of loan management practices, AFI financial viability, and the efficiency and effectiveness of their central support organization.”⁶

Strengthening AFIs would enable them to expand not only the volume but also the range of services they offer, notably mortgage financing. Closer collaboration between Aboriginal financial institutions on one hand, and mainstream banks and credit unions on the other could yield further benefits, including:

- Lower commercial lending costs.
- More efficient credit rating of prospective borrowers.
- Improved monitoring of risk factors.
- Expanded opportunities for funding Aboriginal financial institutions.

Government

A 2004 report commissioned by the federal government concluded: “The role of government...is not to replace the market, but to engage mainstream financial institutions and facilitate Aboriginal access to mainstream market instruments.”⁷ The question is how best to achieve this goal.

In a 2006 paper on the *Economics of First Nations Governance*, Dr Tim Raybould noted: “(T)he solutions to rectify this imbalance in economic underdevelopment on-reserve must be found largely in political cooperation between First Nation leaders and federal policy makers, particularly as the goal of self-government is being achieved and

⁶ Growth Connections, *Improving Access to Private Sector Capital for Aboriginal Business Financing*, 2007.

⁷ Zane Parker, Vanessa DeBono; *Aboriginal Access to Capital in Western and Northern Canada: Issues, Obstacles, and Directions*; Centre for Integral Economics, 2004.

outstanding land claims are settled”⁸. And both First Nations and the federal government must work closely with the private sector to reduce the real or perceived risk of investments in First Nations businesses, and facilitate an increased flow of long-term private capital.

The Growth Connections report suggested that the government could address financing gaps in two distinct ways: by strengthening some of the fundamental components of the marketplace for Aboriginal business financing; and by launching initiatives to target specific funding gaps. It urged that special attention be paid to lenders’ concern about the difficulty in securing tangible collateral.

Some progress has been made over the past decade towards easing legislative and regulatory obstacles to mainstream financing. Opt-in legislation such as the First Nations Land Management Act, the First Nations Commercial and Industrial Development Act, and the First Nations Fiscal Management Act provide First Nations with the ability to opt-out of sections of the Indian Act that act as barriers to economic development. This enables them to assume greater control of their land management and regulatory environments, and enhances their ability to raise revenues and leverage these revenues in the capital markets.

While government grant and contributions programs targetted specifically at Aboriginal businesses have contributed to the growth of Aboriginal-owned small and medium enterprises, they are not typically sufficient to enable participation in major projects and expanding access to capital markets.

Another issue is whether governments will be willing and able to keep expanding financial incentives during times of fiscal restraint. Some experts have suggested that grant and contribution programs should include more stringent repayment terms. This concern underlines the importance of developing sustainable models that enable First Nations to make the transition from government support to active participation in capital markets.

⁸ Dr Tim Raybould, *The Economics of First Nations Governance, Investment Capital, Money and Wealth Accumulation*, Research Paper for the National Centre for First Nations Governance, 2006.

CONCLUSION

This paper focuses on the complexities surrounding economically significant partnerships between First Nations businesses and the non-Aboriginal private sector. It is clear that opportunities are growing, and that success is possible. However, a strong perception of risk remains, due in large part to the unique legislative and regulatory environment on reserves, and the lack of capacity and expertise that hinders the development of strong relationships.

Much of the discussion on First Nations access to mainstream financial markets has centred up to now on what each party expects of the others. Some call for relaxation of statutory measures that restrict on-reserve lending. Others urge more government involvement in the form of direct and indirect financial support. Some propose new forms of First Nations governance.

Judged by results, this approach has so far had limited success. But there is another way. Each party involved in financing First Nations ventures and projects has tools at its disposal to bring risk and reward into closer alignment.

Thus, a business or community seeking a substantial injection of debt or equity can take steps to improve its risk profile, and thereby alleviate investors' concerns. It can install new management, change its business plan and strengthen its balance sheet, as required. Alternatively, it can seek help from others, notably government agencies or strong, reliable private-sector partners.

Governments can provide support in the form of changes to restrictive legislation, direct financial contributions, and less direct measures to mitigate investment risk such as loan guarantees, subsidized financing and other incentives.

Private-sector partners -- sometimes even investors themselves -- can offer management expertise and financial support, and explore innovative ways to structure deals with First Nations.

Instead of parties yet again airing their well-documented concerns, a more productive approach may be to encourage each to ask what it is willing and able to do to accommodate others' challenges, whether alone or through closer collaboration.

ANNEX: SELECTED EXAMPLES OF ACTIONS TAKEN TO ENHANCE FIRST NATIONS ACCESS TO PRIVATE SECTOR FINANCING

Developmental Financing

- The First Nation Regeneration Fund, set up by British Columbia's Tale'awtxw Aboriginal Capital Corporation, Tribal Resources Investment Corporation, Ecotrust Canada and the federal government, provides loans to First Nations seeking to acquire ownership in renewable energy projects. The loans are repaid from royalties and dividends earned from the projects. (Ecotrust Canada has subsequently withdrawn from the fund.)

Assisted Market Financing

- Mainstream financial institutions have sought to strengthen their links with local groups by offering financial literacy services in consultation with community partners, appointing Aboriginal directors and providing community grants. The board of Affinity Credit Union, the second largest credit union in Saskatchewan, comprises representatives from nine district councils, one of which is a First Nations district. With help from the federal government, Affinity has set up a reserve fund to cover losses on loans to First Nations businesses. Affinity allocates at least 3% of annual pre-tax profits to community support.
- The Ontario Financing Authority administers an Aboriginal Loan Guarantee Program that helps Aboriginal groups gain access to equity ownership of renewable energy projects. The 2014 Ontario Budget increased the \$250 million loan guarantee to \$650 million. This program currently guarantees up to 75% of an Aboriginal corporation's equity, with a maximum of \$50 million per project. To date, the program has leveraged \$130 million in approved loan guarantees supporting the investments of eight communities, representing over 10,000 First Nation people, in four projects that have invested over \$2.8 billion in the province.
- The federal Department of Aboriginal Affairs and Northern Development provided over \$400,000 between 2009 and 2011 to Carrier Sekani Tribal Council in British Columbia to facilitate participation by 15 First Nations in the Pacific Trails pipeline. The funding allowed the council to negotiate an option to buy up to a 30% equity stake in the project, as well as other benefits.

Commercial Financing

- The Alberta-based Indian Business Corporation (IBC) unveiled a deal with AltaGas Ltd in June 2014 under which AltaGas has provided an interest-free \$500,000 loan to help finance on-reserve businesses. Like other Aboriginal financial institutions, IBC was originally funded by the federal government. However, Ottawa has phased out "top-ups" of capital in recent years. Explaining the arrangement with AltaGas, Rob Rollingson, IBC's general manager, says: "We took the view that the less we have to rely on government, the better off we are."

International Examples

Initiatives beyond Canada's borders have also spawned some well-regarded initiatives to stimulate Aboriginal access to private sector capital:

- In the US, **Community Development Financial Institutions** combine government seed money, private-sector investment and local expertise. Over 1,000 community development institutions in the US provide credit, capital and financial services to distressed communities that are often unable to tap into mainstream financial institutions. This model could facilitate equity participation by Aboriginal communities or individual entrepreneurs in pipelines, new mining, energy and forest-products projects, and small independent power plants. (More details at <http://www.cdfi.org/>)
- **Indigenous Business Australia** (IBA) is a Canberra-based government agency that helps Aboriginal groups gain access to mainstream capital markets. The agency's chief executive, Chris Fry, is a former senior banker, and several senior members of its 240 employees have come from the private sector.

IBA provides equity and loans -- but not grants -- to Aboriginal businesses that do not qualify for market financing. It has so far contributed equity to 31 investments, including an IT company, a shipping line and a commercial building. In return, Aboriginal groups and entrepreneurs must accept an IBA management presence as well as mentoring for up to 18 months, training and other forms of support.

The agency's equity investment portfolio was valued at A\$206 million at the end of June 2013, with indigenous investors owning combined equity interests of A\$80 million. The investment portfolio generated over A\$4 million in distributions to indigenous partners in fiscal 2013.

IBA has sharpened its commercial focus over the past decade, especially through partnerships between the public and private sectors. Under a 2001 law, it gained authority to make housing and business loans, and to provide guarantees. It recently launched a real estate investment trust to help cash-flush Aboriginal groups invest in commercial real estate. It is now discussing the creation of a venture-capital market to incubate Aboriginal businesses.

The sophistication of Australian Aboriginal entrepreneurs has grown to the point where they increasingly take the initiative in proposing joint ventures directly to mainstream companies. Many no longer need IBA equity, but still count on the agency to provide strategic advice and to help develop new business. IBA recently arranged for seven Aboriginal organizations to spend a day with the former chief executive of Commonwealth Bank, one of Australia's four big banks, who is heading a government inquiry into the future of the country's financial system.

"We have the opportunity to tap into the best commercial brains in Australia", Mr Fry says. "We connect with our clients in a way that government normally doesn't do....The problem that I've got is that demand for our loans and our equity is growing exponentially, but our capital base is capped." (More details at <http://www.iba.gov.au/>)