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Improving access to capital for Canada's First Nation communities

REPORT
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The Public Policy Forum is an independent, not-for-profit organization dedicated to improving the quality of government in Canada through enhanced dialogue among the public, private and voluntary sectors. The Forum's members, drawn from business, federal, provincial and territorial governments, the voluntary sector and organized labour, share a belief that an efficient and effective public service is important in ensuring Canada's competitiveness abroad and quality of life at home.

Established in 1987, the Forum has earned a reputation as a trusted, nonpartisan facilitator, capable of bringing together a wide range of stakeholders in productive dialogue. Its research program provides a neutral base to inform collective decision making. By promoting information sharing and greater links between governments and other sectors, the Forum helps ensure public policy in our country is dynamic, coordinated and responsive to future challenges and opportunities.

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TABLE OF CONTENTS

TERMS	5
EXECUTIVE SUMMARY	6
INTRODUCTION	7
BARRIERS THAT LIMIT FIRST NATIONS' ACCESS TO CAPITAL	8
RECOGNIZING AND BUILDING ON SUCCESS	13
RECOMMENDATIONS FOR CLOSING THE CAPITAL GAP	17
CONCLUSION: WE SHOULD DO MORE	21
APPENDIX: LIST OF PARTICIPANTS	23



TERMS

Drummond Report: In 2012, the independent Commission on the Reform of Ontario's Public Services issued a report that examines how the Government of Ontario can improve its fiscal situation. Of the many recommendations included in the report, the commission suggested that the federal and provincial governments should invest more in education on First Nation reserves. The report, titled [Public Services for Ontarians: A Path to Sustainability and Excellence](#), was authored by Don Drummond, Dominic Giroux, Susan Pigott and Carol Stephenson.

Aboriginal financial institutions (AFIs) help stimulate economic growth for Canada's Aboriginal peoples by promoting and underwriting Aboriginal business development. AFIs provide business financing and support to Aboriginal businesses, which can include business loans, financial consulting services, aftercare and start-up support.

Community Well-Being (CWB) Index is a means of examining socio-economic indicators, including education, labour force activity, income and housing. These are combined to calculate a score for each community that is used to compare well-being across First Nation and Inuit communities with well-being in non-Aboriginal communities over time. AANDC researchers calculated the [2011 Community Well-Being index](#) using data from the 2011 National Household Survey. These data were made available to AANDC and other external researchers in February 2014 through Statistics Canada's national network of Research Data Centers.

First Nations: This report uses the term "First Nations" according to the definition provided by Indigenous and Northern Affairs Canada: "'First Nations people' refers to Status and non-status 'Indian' peoples in Canada. Many communities also use the term 'First Nation' in the name of their community. Currently, there are 617 First Nation communities, which represent more than 50 nations or cultural groups and 50 Aboriginal languages."

First Nations Finance Authority (FNFA) is a statutory not-for-profit organization without share capital, operating under the authority of the *First Nations Fiscal Management Act*, 2005. The FNFA provides investment options and capital planning advice and, perhaps most importantly, access to long-term loans with preferable interest rates. The FNFA is not an agent of Her Majesty or a Crown corporation and is governed solely by the First Nation communities that join as Borrowing Members.

First Nation Fiscal Management Act (FNFMA): The *First Nations Fiscal and Statistical Management Act* came into force on April 1, 2006, and was renamed the [First Nations Fiscal Management Act](#) (FNFMA) on April 1, 2013. It is an optional piece of legislation that was designed to promote the continued economic development of participating First Nations.

The FNFMA provides a framework for First Nations to strengthen their financial management capacity and systems, implement a rigorous property taxation regime, and finance infrastructure and other projects in their communities through bonds. Under the regime, First Nations can take these steps with the support of First Nation institutions, the FMB, First Nations Tax Commission and FNFA.

Executive Summary

Canada was built by access to affordable capital. For decades, federal, provincial and municipal governments leveraged their assets and borrowed with low interest to build for the future. As long-term infrastructure spending increased, so did the socio-economic prosperity of the country. But not all Canadians benefitted equally.

Unlike other public institutions, First Nation governments face unique limitations that inhibit their ability to access capital. Property cannot be used as collateral. Infrastructure deficits are common. Access to cheap loans is rare. These barriers discourage private investment and are the result of chronic underlying issues, including:

- **Socio-economic pathologies**
- **Governance challenges**
- **Institutional barriers and biases**

In 2015, the Public Policy Forum convened three roundtables to identify how First Nation, public, private and non-profit leaders can collaboratively overcome these ubiquitous challenges. Participants agreed that culturally-appropriate approaches must be better developed, shared and utilized. Targeted reforms, supported by sustained dialogue among all stakeholders, will also be essential for breaking down barriers to capital. Six broad recommendations emerged from the roundtable discussions that could form the basis of a practical, multi-stakeholder response:

- **Modernize the federal-First Nation fiscal relationship:** Specific provisions of the *Indian Act*, as well as contribution agreements, need to be reviewed and modernized to spur, rather than inhibit, the flow of capital to First Nation communities.
- **Improve First Nation governance processes and capabilities:** Improving transparency and accountability within First Nation governments is essential for attracting outside investment. The federal and provincial governments should work closely with First Nation leaders to support job training in specific fields, including Chartered Professional Accountants. Establishing an independent executive director in each

community, staffed by a local resident, could also be helpful for providing additional daily oversight of First Nation administration and sharing knowledge and professional expertise.

- **Invest in First Nation education and training:** New investments and multi-stakeholder partnerships are needed to enhance education opportunities in First Nation communities. Peer-to-peer mentorship programs have provided Indigenous adults and children with the skills they need to improve themselves and their communities. Additional funding could scale up these programs and to improve the quality of education services in First Nations.
- **Foster and support regional cooperation to create a more attractive investment climate:** Public-private partnerships that allocate resources toward specific areas – including governance structures, social programs, and technological capabilities – could help First Nation communities lure private investment and jobs.
- **Strengthen Aboriginal Financial Institutions:** Governments and investors should devote additional resources to Aboriginal financial institutions, which provide jurisdictions with affordable options to access capital.
- **Improve financial literacy and education opportunities:** Non-profit organizations and businesses should work collaboratively to make education and financial literacy programs more available in First Nation jurisdictions. Local mentors and culturally-appropriate tools can equip First Nation youth with knowledge to improve their lives and communities.

Introduction

First Nation communities face barriers to accessing capital and financial tools that are critical to improving prospects for economic and social prosperity. Archaic legislation has limited First Nation governments' ability to raise revenue through borrowing and private investment. These restrictions, which do not apply to other Canadian governments, make it difficult for First Nation representatives to borrow at lower interest rates that make infrastructure investments more affordable. The result has been disproportionately higher cycles of poverty and underdevelopment in Indigenous jurisdictions. Today, there is a growing consensus that restrictions should be lifted on First Nation governments to support the integration of First Nation communities into the larger economic life of the country.

The FNFMA provides a framework for First Nations to strengthen their financial management capacity and systems, implement a rigorous property taxation regime, and finance infrastructure and other projects in their communities through bonds. Under the regime, First Nations can take these steps with the support of First Nation institutions, the FMB, First Nations Tax Commission and FNFA.¹

Moreover, a growing number of jurisdictions are also opting out of certain provisions of the *Indian Act* to gain greater control over their finances. These developments represent an important breakthrough for First Nation communities that have struggled "after years of poor treatment from high-interest lenders...single year funding and short-term loans..."²

But these steps will only be part of the solution. Closing the capital gap between mainstream Canada and First Nation communities – which is estimated at \$43.3 billion – will require a more comprehensive strategy that addresses the underlying causes that impede access to capital. It will also necessitate more balanced revenue mix for First Nation communities to reduce dependence on federal transfers.

This report synthesizes the findings of the Public Policy Forum's 2015 roundtable series on access to capital issue for First Nation people in Canada, and points to practical reforms that could form the basis of a First Nations investment action plan. While there was a divergence of opinion, many participants agreed that the following steps could help increase the flow of capital into First Nation jurisdictions:

- Modernize the federal-First Nation fiscal relationship
- Improve First Nation governance processes and capabilities
- Invest in First Nations' education and training
- Foster and support regional cooperation to create a more attractive investment climate
- Strengthen Aboriginal Financial Institutions
- Improve financial literacy

Implementing the report's six broad recommendations, and the action items discussed later in this report, can help set the conditions that will allow First Nation jurisdictions to take greater financial control of their future. Closing the capital gap will require addressing underlying issues related to funding, education and governance. And significant investments will need to be made. But the costs to individuals, communities and the broader economy will be much higher if nothing is done. It is time to act.

¹ Helping Aboriginal Communities Build Their Own Futures on Their Own Terms," *First Nations Finance Authority*, Accessed December 1, 2015, <https://www.foa.ca/afoadocs/L2/2015Conf/Presentations/Workshop%20Q.pdf>

² Ibid, <https://www.foa.ca/afoadocs/L2/2015Conf/Presentations/Workshop%20Q.pdf>

Barriers to First Nation access to capital

Making it easier for First Nation communities to access capital markets is in the interests of *all* Canadians. Investing in First Nation jurisdictions generates social benefits and enhanced financial capacity. It helps build communities that are more self-reliant and sustainable. It also produces new opportunities for banks, investment firms and pension funds to gain access to an underserved and growing demographic group.

As discussed later, there is considerable evidence that First Nation communities should be optimistic about the future. Building on the many successes of stakeholders will be critical to overcoming the socio-economic, governance, institutional and legal barriers that limit the flow of investment into First Nation communities. Only by removing these barriers will it be possible to narrow the capital gap in a sustainable way.

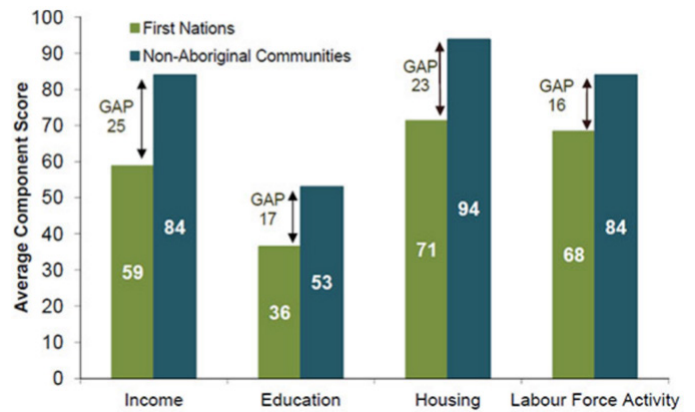
Socio-economic barriers

Of the 100 lowest performing communities listed on Canada's *Community Well-Being Index*, nearly all of them (96) are located in First Nation jurisdictions. This startling figure helps illustrate the scope and seriousness of the challenge facing some First Nation communities. The *Index* measures a community's well-being, education, labour force activity, income, and housing situation. As such, communities with lower scores face more significant socio-economic challenges, making it more difficult to attract and, in some situations, manage capital.

In addition to experiencing disproportionately more social challenges, First Nation governments also have fewer economic resources to draw investment. For example, limited infrastructure in First Nation jurisdictions poses a significant challenge for new projects, and thus for potential investors. Large business operations typically require amenities such as paved roads, serviced lots, fire services, healthcare facilities, and industrial-scale water and sewage systems. Participants suggested that the absence of these and other basic public services on reserves represents a significant barrier for companies wishing to invest in First Nation jurisdictions.³

Overcoming these socio-economic challenges will require a more culturally-appropriate approach that is driven by First Nation leaders, with support from external stakeholders. Focus should be on resolving underlying socio-economic issues that disrupt community well-being and prosperity. For example, many challenges could be improved by providing better education and training opportunities.

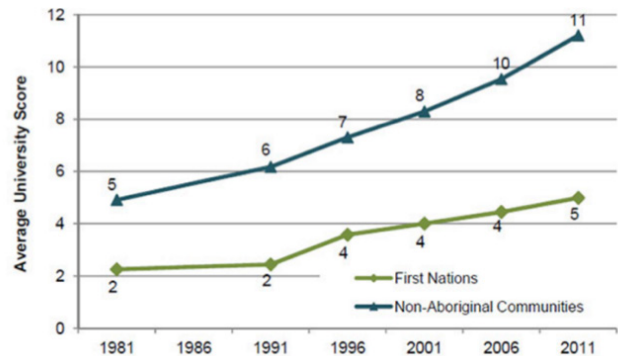
CWB component scores, First Nations and Non-Aboriginal Communities, 2011



Average High School Plus Scores, First Nations and Non-Aboriginal Communities, 1981-2011



Average University Scores, First Nations and Non-Aboriginal Communities, 1981-2011



Source: 2011, "Community Wellbeing Index" Statistics Canada, Accessed online: <https://www.aadnc-aandc.gc.ca/eng/1345816651029/1345816742083>

³ "2011-2012 Report on Plans and Priorities", *Aboriginal Affairs and Northern Development Canada*, Accessed September 8, 2015. <http://www.aadnc-aandc.gc.ca/eng/1315424049095/1315424155048>.



Data collected by Statistics Canada has found that while the education gap between First Nation peoples and the rest of Canada narrowed between 1981 and 2001, it has increased slightly since 2005. Moreover, compared to non-Aboriginal communities, the gap between non-Aboriginal and First Nation peoples who complete high school and university “has been growing relatively steadily since 1981 and had almost doubled in size by 2011.”⁴

Increased funding is needed to improve childhood and adult learning in First Nation communities. Better facilities, more learning aids and additional educators could help close the education gap between First Nation communities and the rest of Canada. This will require significant government investment. But studies suggest that the short-term costs of investing in First Nation education and training could be quite minimal compared to the potential long-term benefits: According to the 2012 Drummond report, “a serious investment in on-reserve education has the potential to increase their economic inclusion and reduce the long-run strain on public resources by reducing above-average demand for government programs such as health care, social services and the justice system.”⁵

Governance barriers

The real or perceived lack of public sector transparency acts as a barrier to investment. This is true for all governments. However, First Nation communities have far fewer resources to ensure compliance with high governance standards. Many jurisdictions have a limited capacity to train, attract and retain professionals to manage First Nation government finances. Under these circumstances, First Nation communities may need additional support from outside stakeholders to provide chartered professional accountants and other technical specialists that are essential to effective and efficient governance. Providing new resources, tools and training opportunities could help assuage investors’ concerns. It could also support jurisdictions that currently, or aspire to, adhere to high accountability standards.

First Nation governments are also restricted by archaic and inconsistent rules that limit their ability to raise revenue. First Nation governments typically have fewer and more limited taxation powers than other Canadian governments, including municipalities. While First Nation governments can levy property taxes under section 83 of the *Indian Act* and the *First Nation Fiscal Management Act*, their taxing authority is subject to various conditions and approvals.

“Better education on reserves is crucial to improving the social and economic outcomes of First Nations peoples, but federal funding per student falls short of [Ontario’s] average. The province should put strong pressure on the federal government for adequate funding. Failing such action, which is clearly justified and desperately needed, the province should plug this gap.”

- “Drummond Report”, 2012,

Public Services for Ontarians: A Path to Sustainability and Excellence

Roundtable participants noted that jurisdictions that do have taxing authority often apply their powers unevenly. For example, some First Nation governments have actively sought to raise revenues from outside parties who own property in First Nation communities -- such as cottagers and retailers -- but have been reluctant to levy taxes and user fees on Indigenous residents. This practice unnecessarily constricts First Nation government finances. A 2009 policy brief published by the Institute on Governance noted that “both governance and service quality can be expected to suffer in a governance system that lacks the crucial tie of a direct fiscal reliance upon its citizens for survival.”⁶

First Nations Fiscal Management Act

The *First Nations Fiscal Management Act*, which took effect in 2006, enables First Nation communities to collect and use property taxes for on-reserve infrastructure development through co-operative borrowing in public capital markets.

Although the *Act* has brought marked improvements to First Nations’ financial affairs, some practical constraints have emerged, such as the need for additional professional staff and improved financial and risk management systems and training programs.

⁴ <https://www.aadnc-aandc.gc.ca/eng/1345816651029/1345816742083>

⁵ Don Drummond et al., 2012, “Public Services for Ontarians: A Path to Sustainability and Excellence”, Commission on the Reform of Ontario’s Public Services, Accessed online at <http://www.fin.gov.on.ca/en/reformcommission/chapters/report.pdf>, 468.

⁶ John Graham, “In Praise of Taxes: The Link between Taxation and Good Governance for First Nations Communities”, Accessed on August 23, 2015, http://iog.ca/wp-content/uploads/2012/12/2009_February_policybrief32.pdf

Institutional barriers and biases

In a 2007 report, the Senate Standing Committee on Aboriginal Peoples stated that statutory limitations make it difficult for First Nation governments to leverage their territory and resources. While numerous legal hurdles contribute to this issue, Committee members attributed inadequate land ownership rights to the *Indian Act*, suggesting that it “governs almost every aspect of economic activity on [First Nation’] lands...[and] given its advanced age, it is almost completely anachronistic and anathema to doing business in today’s highly globalized, post-industrial economy.” Section 89 of the *Indian Act*, in particular, restricts the seizure of property. This undermines First Nation borrowers’ ability to offer collateral that is vital for accessing commercial loans.

Over the past decade, leaders have offered alternatives to help bypass this legal and administrative barrier. There have been some successes. For example, financial institutions accept other forms of collateral from First Nation communities so that the latter can still leverage their assets to access capital. However, roundtable participants indicated that the *Indian Act* itself needs to be reviewed and modernized to allow First Nation governments to return to having greater control over lands and resources.⁷

Recent Supreme Court of Canada (SCC) rulings:

Two landmark SCC rulings during 2014 added further relevance and urgency to the roundtable discussions:

- The Court granted Aboriginal title to the Tsilhqot’in First Nation over more than 1,700 square kilometres of land in the interior of British Columbia. Aboriginal title means that the lands cannot be sold privately.
- In a case involving Alberta’s Mikisew First Nation, the Court affirmed the government’s duty to consult on changes to environmental laws even when Aboriginal title to the affected land had been surrendered by treaty.

The full implications of these cases are not yet clear. Some experts are confident that the decisions will strengthen First Nations’ negotiating position for large projects. Others take the opposite view.

Grant and loan processes have also acted as institutional barriers to investment. First Nation communities and businesses experience fluctuating interest rates, long processing wait-times, unfavourable loan conditions, and complex balance sheet and funding requirements. Participants also expressed concern over the annual contribution agreements concluded between the federal government and some First Nation communities. These short-term arrangements typically cover about 80% of operating costs, forcing the community to find other revenue sources to top-up their operating budgets.⁸ The shortfall exacerbates the challenge of providing public necessities such as roads and public buildings on jurisdictions. Participants suggested that it also leaves inadequate funds to maintain existing infrastructure.

Another fundamental issue is the near-total exclusion of First Nation governments, businesses and individuals from mainstream commercial and consumer credit rating systems. Credit ratings and histories have become an integral part of the global economy. The absence of a credit file can seriously inhibit lending opportunities. This shortcoming makes it difficult for prospective borrowers to leverage assets for long-term loans at an appropriate cost. With little or no credit history, borrowers cannot benefit from a scrupulous repayment record, nor are they penalized for delinquency. The result is that many lenders treat First Nation governments as risky corporate clients rather than more creditworthy public-sector entities.

Entrenched institutional biases further complicate matters. Capital providers and First Nation communities often take the view that much of the fault lies with the other side. One senior business leader said that his group would have a significantly bigger exposure to First Nation business if entrepreneurs were better acquainted with services offered by banks. On the other hand, some First Nation leaders contend that the investment risk in their communities is far lower than many outsiders assume. What’s more, some roundtable participants noted that some financial institutions confine their on-reserve business to short-term loans that carry high-interest rates. These actions do not correspond with evidence that the vast majority of First Nation borrowers have a sturdy repayment record and would thus qualify for high credit scores.

First Nation peoples have traditionally and unfortunately been perceived as part of the problem rather than the solution. This is particularly true when it comes to attracting investment for natural resource projects. To its credit, the Trudeau government has publicly rebutted

⁷ Sectoral self-government agreements allow First Nation governments to remove some restrictions of the Indian Act. However, participants suggested that the Act itself needs to be adjusted. Sectoral self-government is explored in more detail in the next section of this report.

⁸ It’s important to note that some agreements do cover 100% of costs.

this harmful institutional bias and committed to engaging First Nations in projects that impact their communities. This inclusive approach is overdue and would provide First Nations with additional experience in negotiating and making decisions. It might also lead to more capital which, in turn, could be invested back into communities.

As noted below, many banks have also expanded their services into First Nation jurisdictions, providing capital to support start-up businesses and infrastructure. These initiatives represent important steps to removing Canada's entrenched institutional barriers and biases.



Recognizing and building on success

Stakeholders should be optimistic about the future. Despite facing many hurdles, First Nation, governments, businesses and non-profit organizations have successfully worked together to spur tangible social and economic benefits in First Nation jurisdictions. Shedding light on these best practices can be useful for demonstrating that many of the aforementioned challenges can be overcome. It can also help to inform decision-makers charged with improving financial literacy opportunities in First Nation communities.

Positive steps have been taken to improve First Nation governance

Significant progress has been made over the past two decades to achieve higher governance standards in First Nation jurisdictions. Numerous acts and legislation now require communities to put in place laws and management systems that ensure transparency and accountability. According to roundtable participants, these sound financial reporting processes are helping to enhance First Nation governments and their relationships with financial institutions.

Federal legislation is also giving First Nation governments a greater capacity to address issues on reserves. For example, First Nation government leaders can opt into the *First Nation Fiscal Management Act* (FNFMA) to raise local revenues through property and sales taxes. The FNFMA establishes three institutions – The First Nation Tax Commission, the First Nation Financial Management Board, and the First Nations Finance Authority – that help Indigenous governments’ address socio-economic issues in First Nation communities. More specifically, FNFMA helps empower First Nation governments by:

- strengthening First Nations’ real property tax systems and First Nations’ financial management systems;
- providing First Nations with increased revenue raising tools, strong standards for accountability, and access to capital markets available to other governments;
- allowing for the borrowing of funds for the development of infrastructure on-reserve through a co-operative, public-style bond issuance; and
- providing greater representation for First Nation taxpayers.

Sectoral self-government agreements are also returning decision-making powers back to First Nation government leaders. These agreements, which remove specific activities from the constraints of the *Indian Act*, allow First Nation communities to exercise broader authority over key areas, including land management, commercial leasing of lands, oil and gas, financial administration, and education.⁹

According to Indigenous and Northern Affairs Canada, 36 Indigenous communities have signed on to sectoral agreements that give them greater control over their lands. Under this framework, nine Cree community governments and the Cree Regional Authority “manage a land regime, participate in an environmental and social protection regime and partner with various entities in economic development opportunities.”¹⁰ Similar arrangements in Nova Scotia have been negotiated with the Mi’kmaq to return greater First Nation governments control over education.

The *First Nation Fiscal Management Act* and sectoral arrangements appear to have achieved a reasonable balance between expanding jurisdiction and providing appropriate institutional checks and balances.

Multi-stakeholder partnerships help share risk and leverage resources

Multi-sector collaboration is needed to imbue First Nation government leaders with greater capacity to manage policy and financial affairs in their jurisdictions. According to roundtable participants, establishing regional partnerships – between all stakeholders and among Indigenous communities – could create an effective network for First Nation communities to share resources, resolve problems and offer mutual support. Regional resource centres could act as “hubs” for First Nation, government and business leaders to meet, share information, discuss challenges and negotiate on key issues. These centres could also serve as educational institutions that provide legal and technical guidance to First Nation governments that have resource development projects on their lands.

During the roundtable discussions, participants cited additional partnerships models that could help stakeholders better share resources and risk. For example, the Atlantic Waste and Water Project seeks to make it easier and more affordable for 33 First Nation communities to abide by new water regulations. The proposed project facilitates collaboration between the Government of Canada, PPP Canada, and First Nation governments to

⁹ “Fact Sheet: Aboriginal self-government,” *Indigenous and Northern Affairs*. Accessed September 10, 2015, <http://www.aadnc-aandc.gc.ca/eng/1100100016293/1100100016294>

¹⁰ Ibid, <http://www.aadnc-aandc.gc.ca/eng/1100100016293/1100100016294>

establish one centralized water authority that serves 33 First Nation communities. This project would allow First Nation leaders to abide by the new standards without having to create facilities for each individual jurisdiction. Importantly, it also promises to maintain local decision making, reduce the risk of contaminated water, and improve the health of residents.

Canadian decision-makers may also wish to consider how multi-stakeholder partnerships outside of Canada are helping Indigenous peoples develop their communities. In the United States, for example, Community Development Financial Institutions (CDFIs) combine government seed money, private-sector investment, and local expertise to reinvigorate economically depressed regions of the country. These institutions provide targeted lending and investment to help improve the economic opportunities and well-being in low-income areas. And they are having an impact: CDFI Program awardees created or maintained over 25,600 jobs, financed over 6,300 businesses, and provided 233,100 individuals with financial literacy training. Similarly in 2011, over \$5.5 billion in loans and investments were made possible under the New Markets Tax Credit Program, with over 70 percent of the loans and investments made in Severely Distressed Communities. This critical financing created over 31,400 jobs and funded over 52,400 construction-related jobs; and resulted in almost 3,000 affordable housing units, 18.6 million square feet of commercial real estate, and over 8,300 businesses receiving financial counseling services.¹¹

The Indigenous Business Australia (IBA) also provides a useful case study that may be of interest to Canadian stakeholders. IBA is a Canberra-based government agency that helps Indigenous businesses and individuals gain access to mainstream capital markets by providing equity and loans – but not grants – when they not qualify for market financing. IBA seeks to help Aboriginal and Torres Strait Islander peoples attain “self-management” and “self-sufficiency.” They do so by financing sustainable ventures that foster capacity development, economic independence, job creation, training and skills development and supply chain opportunities. As of 2014, the most current year that information is available, IBA had directly invested in 27 ventures in industries as varied as tourism, industrial, communications, retail and commercial properties. These contributions helped “generate broader economic outcomes, supporting Aboriginal and Torres Strait Islander peoples (27 per cent of the total workforce

Putting capital to work through multi-stakeholder partnerships

In 2007, the Lax Kw’alaams First Nation set out to revitalize its economy by investing in local enterprises. After securing capital from the Bank of Montreal (BMO), the band purchased a bankrupt forestry company and turned it into a thriving enterprise. The company, Coast Tsimshian Resources LP, now employs dozens of local residents and has won Community-Owned Business award and the Aboriginal Business of the Year award. The band now owns nine companies that “generate nearly \$200 million in annual revenue and employ some 450 people, more than half of them First Nations. In 2000, nearly 900 community members were on social assistance; now there are fewer than 100.”

Lax Kw’alaams First Nation provides an illustrative example of a successful multi-stakeholder partnership. The band received the resources they needed to realize their economic potential. In return, the BMO gained a new and reliable client. Today, the bank “handles nearly all of the community’s financing needs, from operating capital for the forestry company to infrastructure financing for a paved road to the local ferry dock – a vital transportation link to the port of Prince Rupert, 38 km to the south,” and even mortgage financing.

Sources: Bank of Montreal, “2014 Corporate Responsibility Report” BMO Financial Group, Accessed online at https://www.bmo.com/cr/images/BMO_CR2014en.pdf, 30;

Coast Tsimshian Resources LP. “Home”, Accessed online at <http://www.ctrp.ca/>;

supported), with total salaries, wages and job-relevant training...”¹² significantly exceeding portfolio targets. In return, First Nation groups and entrepreneurs must accept an IBA management presence as well as mentoring and training for up to 18 months.

¹¹ “Moody’s Assigns A3 Debt Rating to the First Nations Finance Authority’s Anticipated CAD 110 Million Debenture Issue,” *Moody’s*, Accessed September 10, 2015. https://www.moodys.com/research/Moodys-Assigns-A3-Debt-Rating-to-the-First-Nations-Finance--PR_293673

¹² Community Development Financial Institutions Fund, “The CDFI Fund: Empowering Underserved Communities,” Accessed online on October 10, 2015, https://www.cdfifund.gov/Documents/CDFI_Brochure.pdf

Collaboration on new training and learning opportunities

The Canadian Executive Service Organization (CESO) and RBC Foundation partnered with the Naskapi Nation of Kawawachikamach in northern Quebec and the Mushkegowuk Council in northern Ontario to facilitate information-sharing through peer-to-peer learning. These partnerships pair First Nation leaders with volunteers who have experience with improving local governance and economic development. More specifically, CESO leverages its network of expert volunteers to mentor First Nation people in areas that include:

- Economic development (business support, community economic development)
- Health planning and management
- Community planning (housing, public works, land management)
- Governance (leadership, strategic planning, human resources)
- Finance and accounting

The objective of the CESO-RBC-First Nation partnership is to transfer knowledge in ways that help First Nation people attain “higher levels of training, employment and entrepreneurship, and greater ownership and participation in all aspects of the regional economy – especially in transportation, communication and energy supply opportunities.”

In Naskapi, this unique mentorship opportunity is helping a local resident establish a wellness centre that will serve the community by building greater social and economic ties.

Sources: RBC, 2015, “RBC Aboriginal Partnership Report: A Chosen Journey, Royal Bank of Canada,; P. 7 ; Canadian Executive Service Organization, 2015, “CESO/First Nations Partnership Program”, Accessed online at <http://www.ceso-saco.com/Where-We-Work/Canada/CESO---First-Nations-Partnership-Program.aspx>

Due to the IBA’s work, many Australian First Nation entrepreneurs have the skills to initiate joint ventures directly with mainstream companies, with little or no government support.

Aboriginal financial institutions are providing access to investment

The growing network of Aboriginal financial institutions (AFIs) promises to help boost First Nations’ access to capital. In 2012 alone, AFIs funded an estimated \$41 million in programs and projects.¹³ With operations in all provinces and territories, they have provided almost 40,000 loans to Indigenous businesses and individuals. AFIs also provide valuable financial programs and services including “business financing and support services include business loans, non-repayable contributions, financial and management consulting services, business start-up, and aftercare support.”¹⁴ Importantly, AFIs’ ability to repossess assets means that they can act on behalf of banks, thus helping to reduce lending risk.

AFIs are also located in or close to First Nation communities, placing them in a good position to reach a significant number of people through face-to-face and online contacts. Their services help individuals and families plan for the future, develop saving skills and choose appropriate products.

Banks and major investors should consider investing in AFIs as a low-risk way of gaining access to a potentially lucrative emerging market. AFIs can also play a valuable role in improving financial literacy among First Nation peoples.

First Nation financial literacy programs are helping

Making responsible financial decisions – from student loans and mortgages to raising children and planning for retirement – requires knowledge of the risks and benefits of investment vehicles. Decisions on these issues impact not only the individual but also the family and the wider community. What’s more, the success of First Nations’ economies is dependent on entrepreneurs who have a keen understanding of the available financial tools and services. With an ability to navigate capital markets to acquire loans, credit and other essential services, knowledgeable governments, business owners and individuals can create jobs and prosperity for their communities.

¹³ “IBA Annual Report 2013-14: Part 2: Investments/Performance”, *Government of Australia*, Accessed November 25, 2015,

<http://www.iba.gov.au/reports/AR1314/part-2-investments/performance/index.html>

¹⁴ “A Portrait of Aboriginal Financial Institutions: Providing Access to Capital Programming and Support to Aboriginal Owned Small Businesses,” *National Aboriginal Capital Corporations Association*, Accessed online on October 11, 2015, <http://www.nacca.net/downloads/2012-afi-report.pdf>, p. 4

¹⁵ “About NACCA,” *National Aboriginal Capital Corporations Association*, Accessed on <http://www.nacca.ca/about-nacca>

Since each First Nation government is culturally unique, a single program design or approach may not work across jurisdictions. Policymakers wishing to improve the capacity of First Nation peoples to make informed financial decisions will need to adapt their programs to each community's needs.

There are some notable success stories that should be considered. For example, the National Aboriginal Capital Corporations Association (NACCA) and AFIs support the development of financial literacy across the country. AFIs provide financial support to Aboriginal businesses and entrepreneurs to obtain financial management training, business case development, marketing support and other services. These programs are designed to assist aspiring Aboriginal entrepreneurs to become investment ready to attract capital.

In addition, mainstream financial institutions have sought to strengthen their links with local First Nation groups by offering financial literacy services in consultation with community partners, appointing First Nation 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 from a First Nation. According to participants, Affinity, with the support of the federal government, has set up a reserve fund to cover losses on loans to First Nation businesses and allocates at least 3% of annual pre-tax profits to support communities through financial literacy and other initiatives.

These and other similar programs are helping to provide literacy opportunities in First Nation jurisdictions. And it will be important to build upon these successes.

Developing connections between stakeholders and the local community could help build awareness and support for these financial literacy services. Government and non-profit leaders should seek to clarify how other stakeholders

– including financial institutions, schools, health care workers, private sector employers, and service providers – can take advantage of their daily interactions with First Nation peoples to encourage financial literacy. For example, during the hiring process, resource companies could provide workshops or materials on essential financial issues such as employee salary, taxation, deductions, and pension plans. By leveraging these opportunities, stakeholders can help to ensure that First Nation peoples have more opportunities to strengthen their financial literacy.

Greater coordination across sectors can also help stakeholders communicate complex financial ideas in accessible language. According to participants, Indigenous cultures often use personal stories to share information. Stakeholders should continue working with organizations and community leaders who have a deeper understanding of First Nations' culture when designing financial literacy programs peoples.

Governments, non-profit organizations and financial institutions should also consider developing local advocates to champion financial literacy and help build trust in communities. These individuals could potentially serve as role models and mentors, bringing financial management into the public consciousness and promoting it as a viable career option for disenfranchised youth. Since First Nation governments are already accountable for the majority of programming, roundtable participants expressed concern that additional responsibility may overburden these organizations. Instead, a separate economic development body could help share responsibility, accountability, and transparency.

Recommendations for closing the capital gap

Providing First Nation peoples with greater access to capital is a pressing policy priority. The challenges highlighted above are well known to First Nation, government and private sector leaders. For decades, they have been discussed and debated. Yet additional action is needed to sufficiently address them. Driving measurable change will require greater cooperation among stakeholders. It will also be important to focus attention and resources on specific areas that can achieve the greatest impact.

During the roundtable discussion series, participants identified the following six broad recommendations that could form the basis of a First Nations' investment action plan:

- Modernize the federal-First Nations fiscal relationship
- Improve First Nation governance processes and capabilities
- Invest in First Nations' education and training
- Foster and support regional cooperation to create a more attractive investment climate
- Strengthen Aboriginal Financial Institutions
- Improve financial literacy and education opportunities

1. Modernize The Federal-First Nations Fiscal Relationship

Summary of challenges: Specific provisions of the *Indian Act* impede investment on First Nation jurisdictions, including Section 89 which places restrictions on property. Institutional barriers and biases often act as disincentives for First Nation governments that are seeking to apply for grants, loans, and investment. And short-term contribution agreements can make it difficult for First Nation communities to invest in long-term projects that could better benefit their communities.

Action items for the federal government:

- Review and modernize the *Indian Act*, particularly provisions that limit First Nations' ability to use property as collateral

- Re-examine loan guarantee programs to improve flexibility and remove red tape
- Leverage Ottawa's sovereign guarantee to back loans for First Nations
- Include senior public-sector finance officials in future discussions on access to finance

Action items for federal and First Nation governments:

- Establish more multi-year service agreements to create a more predictable and sustainable source of funding for First Nation governments.
- Identify, communicate and implement best practices in service agreements to improve economic sustainability and results for First Nation jurisdictions.

2. Improve First Nation governance processes and capabilities

Summary of challenges: Some First Nation jurisdictions have very few funds to train, attract and retain professionals who can manage First Nation government finances. First Nation governments are also restricted by archaic regulations that limit their ability to raise revenue through taxation. In some situations, First Nation governments that do have taxing authority do not levy taxes evenly across residents in their jurisdiction.

Action items for the federal government:

- Work with First Nation and provincial governments to develop a culturally-appropriate approach, driven by First Nations leaders, that resolves underlying socio-economic issues and provides training and resources to improve First Nations' financial position.
- Offer long-term funding that includes operational costs to help offset First Nation governments' budget constraints (i.e. tax-sharing arrangements).
- Work with the financial services sector to help First Nation communities gain access to commercial and consumer credit rating systems.

Action items for First Nation governments:

- Seek to broaden First Nations' tax jurisdiction, and increase the use of taxation revenues to cover the costs of service delivery by First Nation governments.
- Draw on existing tools to strengthen financial management at the governance level (e.g. financial certification under the *First Nation Fiscal Management Act*).
- Seek to become members under the FNFMA and participate in FNFA bonds.

Action items for all stakeholders:

- Invest in equitable programs for First Nation communities to elevate baseline social conditions.
- Support First Nation governments that are seeking to attract, train and retain Chartered Professional Accountants and other experts that can improve governance practices.

3. Invest in First Nations' education and training

Summary of challenges: More programs are needed to help First Nation adults acquire skills and experience, and learn from experienced professionals. Expanding the pool of First Nation professionals could help address the shortage of skilled labour in Indigenous communities and provide additional opportunities for peer-to-peer learning. Improving education facilities and opportunities for young people will also be needed to close the education gap that currently exists between First Nation communities and the rest of Canada. By strengthening training and education initiatives, stakeholders will help remove the knowledge barrier that restricts the flow of capital into First Nation jurisdictions.

Action items for federal, provincial and First Nation governments, businesses and non-profit organizations:

- Identify successful training and mentorship programs that have provided First Nation adults and children with various levels of skills.
- Determine whether and how these programs can be scaled up across entire communities and nationally

- Provide additional funding to improve classroom conditions, teaching aids and the number and caliber of teachers and mentors in First Nation communities

4. Foster and support regional cooperation to create a more attractive investment climate

Summary of challenges: Fiscal reform will have little impact on capital flows unless First Nation leaders can attract outside investment. Roundtable participants noted that Indigenous businesses and outside investors face inflexible policies, high costs and long wait times when investing in First Nations. These issues create unnecessary burdens and significantly limit the flow of capital to First Nation communities and businesses.

Long-term, multi-stakeholder strategies are needed to overcome these issues as well as to advance on issues such as land use, infrastructure, economic development and new sources of revenue.

Moreover, adopting a collaborative approach could help First Nation peoples leverage a wider range of expertise, resources, and support systems to better meet community needs.

Action items for federal, provincial and First Nation governments:

- Identify and reduce red tape that unnecessarily delays loans and grants (i.e. removing, where possible, burdensome requirements on balance sheet and funding requirements; reducing long processing wait times;, etc.)
- Establish regional resource centres or "hubs" to help communities become more knowledgeable of, and involved in, nearby resource development projects. The hubs could provide guidance on how to work with onsite staff, recruit experts, consult with technical experts, and negotiate with corporations and governments. They could also help to build connections between stakeholders.
- Publicly champion successful on-reserve investments and case studies to boost investor knowledge and confidence
- Better communicate statistics of First Nations' positive financial record to remove entrenched institutional barriers and biases

- Explore the role and requirements of public-private partnerships (P3s) to determine if they might be appropriate for community projects.
- Establish a centralized database that identifies national and regional sources of capital, and outlines requirements for partnerships and investments.
- Create a separate body to share responsibility for economic development with First Nation chiefs and governments.

5. Strengthen First Nation Financial Institutions

Summary of challenges: It is widely accepted that AFIs can and should be key players in improving First Nations' access to market capital. However, an Aboriginal Business Canada report 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.

Strengthening AFIs would enable these essential institutions to expand not only the volume but also the range of services they offer, notably mortgage financing. Closer collaboration between AFIs 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.

Action items for all stakeholders:

- Support Aboriginal Financial Institutions through financing and awareness campaigns in First Nation communities
- Develop information that makes it easier to understand the legislative framework for working with First Nations. This information should focus on overcoming barriers rather than legal complexities.

- Establish a centralized information tool that provides First Nations with a "one-stop-shop" to identify sources of capital (national and regional) and learn about partnership best practices and requirements.

6. Improve financial literacy

Summary of challenges: The success of First Nation governments and entrepreneurs depends on a greater understanding of financial tools and services. Complex financial ideas need to be communicated in language that is accessible and culturally-relevant. Since each First Nation is unique, a single program design may not achieve the same results across jurisdictions. Government, business and non-profit organizations operating on reserves could also do a better job of leveraging their interactions with First Nation peoples to enhance financial literacy.

Action items for the federal government:

- Include financial literacy as part of the eligibility requirements for government grants.
- Work with First Nation, provincial and territorial governments to develop culturally-appropriate financial literacy tools that assist individuals
- Establish more flexible and less onerous funding agreement models for First Nations that have achieved a sufficient level of financial management capacity, as is demonstrated by certification by the First Nations Financial Management Board, and/or other indicators, such as trained financial officers by AFOA Canada or other accredited training organizations, sustained financial management records, etc.

Action items for First Nation governments:

- Identify local champions to spearhead financial literacy programs and lead economic development activities.

Action items for financial institutions:

- Develop culturally-relevant communication materials that are accessible to individuals with various levels of financial literacy. One way of doing this would be through programs that explain each financial decision that an individual could take over the course of their lives.

Action items for non-profit organizations:

- Identify new organizations and champions in First Nations who can provide training and education to community members. These trainers might include healthcare providers, private sector employers, teachers, and financial professionals.

Action items for all stakeholders:

- Rather than establish new financial literacy programs, strengthen existing ones that have proven successful in First Nation communities.

This option allows stakeholders to leverage existing resources and to improve knowledge in First Nations with potentially fewer costs.

- Take advantage of daily interactions with First Nation peoples to teach financial literacy.
- Develop local advocates to champion financial literacy and help build trust in financial institutions.



Conclusion: We should do more

Canada's First Nation communities require greater access to capital. Investment funds provide opportunities to build new infrastructure, create jobs and invest in young people. Whereas federal, provincial and municipal governments can borrow from creditors with relative ease, entrenched barriers have limited First Nation governments from enjoying the same privileges. The result has been economic and social stagnation in First Nation communities.

In 2015, the Public Policy Forum convened three roundtables to examine how Canada's First Nation leaders can better access and use credit to enhance their communities. Throughout the discussions, it became clear that certain barriers – including socio-economic gaps, inconsistent governance practices across jurisdictions, and institutional barriers and biases – represent obstacles between First Nation communities and investors. Overcoming these challenges will require a coordinated response that leverages government, First Nation and business expertise and resources.

The plethora of issues affecting First Nation communities suggests that stakeholders need to focus on clearly defined, attainable goals. For example, roundtable participants suggested that modernizing the federal-First Nations relationship, improving First Nation governance processes and capabilities, investing in education and

training, creating a more attractive investment climate through multi-sector partnerships, strengthening Aboriginal Financial Institutions, and enhancing financial literacy should all be priorities.

The recommendations and action items in this report are not a panacea for the chronic struggles that First Nation communities experience in Canada. Progress will take time. Results may vary. However, the successful case studies and partnerships that are highlighted in this report provide optimism that progress is not only possible but inevitable. Implementing the recommendations and the accompanying action items will help set a foundation for genuine collaboration and empowerment. It will also signal to all Canadians that stakeholders are shifting from “talk to action” by giving First Nations the tools they need to build more prosperous, healthy and happy communities.



APPENDIX

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