Momentus

Submitted to:
First Nations Financial Management Board

Addressing Gaps in Indigenous Access to Finance

Pre-Scoping Report

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Momentus

Table of Contents

Executive Summary

This scoping study, conducted for the First Nations Financial Management Board (FMB) by Momentus Global (formerly International Financial Consulting Ltd.), delves into the current state of Indigenous access to financing across a broad range of economic sectors and explores options to overcome existing barriers. Despite positive strides in Indigenous economic development, access to finance remains a critical issue, hindering progress towards reconciliation and self-determination. Legal, cultural, and fundamental financing barriers pose challenges for Indigenous individuals, businesses, communities, and Nations in accessing capital.

To address these barriers, a comprehensive and collaborative approach is necessary. **A central recommendation is to establish an Indigenous Development Bank (IDB) as a preferred approach to mobilizing financing for the Indigenous economy.** The IDB would serve as a complementary source of finance, filling market gaps, and providing support for economic development and reconciliation efforts.

The Bank's structure must enshrine Indigenous leadership and representation in its governance to reflect the interests of all stakeholders.

The report highlights the importance of aligning the IDB's strategic priorities with performance metrics, focusing on not only financial performance but also development-related impacts on Indigenous socio-economic development, environmental sustainability, and climate goals.

Ultimately, the creation of an Indigenous Development Bank and the implementation of the recommended measures have the potential to significantly improve Indigenous access to finance, strengthen the Indigenous economy, and foster economic self-determination and prosperity on Indigenous terms. Embracing this new pathway will drive positive transformation, moving away from past approaches towards a more inclusive and ambitious future for Indigenous Peoples in Canada

1. Forces Driving a Need for Change

1.1 Introduction

Momentum is building on a fundamental change in the economic engagement of Indigenous Peoples in Canada. Important steps forward are being taken in Indigenous economic development, as a key element of reconciliation and inclusion. Indigenous leaders, Nations, communities, businesses, and entrepreneurs are actively considering an array of opportunities. Together, these opportunities can strengthen the Indigenous economy, help build the capacity: a) to generate higher levels of income and employment for First Nations, Inuit, and Métis peoples; b) to support the ability to create prosperity, accumulate wealth; and c) "…to address the systemic [economic] inequities and disparities that remain present between Indigenous people in Canada and the rest of the country"[1].

Attractive economic opportunities are emerging across many sectors, notably in resource development – including conventional energy, renewables, forestry, and mining – where Indigenous communities have an opportunity to become asset owners and builders, in addition to creating employment in many forms. Other economic sectors like fishing, agriculture, food processing, light manufacturing, and services, including entertainment and cultural industries, offer economic development opportunities.

These various opportunities are aligned with a changing approach by the federal government, which dissolved the former Department of Indian Affairs and Northern Development and replaced it in 2019 with the Department of Indigenous Services, and the Department of Crown-Indigenous Relations and Northern Affairs. At its core, this change is intended to represent an evolution in how the federal government interacts with Indigenous communities, reflecting an attempt to move away from paternalistic approaches and inherited colonial engagements. Yet, while these shifts are notable, the larger systemic changes necessary to address deep-seated issues and foster genuine reconciliation may require a more profound and sustained commitment from all stakeholders to fully support Indigenous self-governance and self-determination.

1.2 Access to Financing as a Priority

Despite a change in policies and a restructuring of federal government services, such as the new amendments to the First Nations Fiscal Management Act in June 2023[2], important barriers continue to exist. In particular, access to finance or capital is a critical issue if the Indigenous economy is to make meaningful progress on economic development as a basis for reconciliation.

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[1] Government of Canada. "Mandate Letter: Minister of Indigenous Services and Minister Responsible for Federal Economic Development Initiative for Northern Ontario." Accessed June 30, 2023. https://www.pm.gc.ca/en/mandate-letters/2021/12/16/minister-indigenous-services-and-minister-responsible-federal-economic.

[2] https://www.canada.ca/en/crown-indigenous-relations-northern-affairs/news/2023/06/new-amendments-to-the-first-nations-fiscal-management-act-receive-royal-assent.html.

Access to finance is key to economic development, economic empowerment, and job creation. Countless studies, particularly in emerging and developing economies, show lack of finance being cited as the one of the most important barriers to development and that increasing access to credit has a profound impact on economic growth.

"There is growing recognition that the benefits produced by financial intermediation and markets are not being spread widely enough throughout the population and across economic sectors. Furthermore, there may be potential negative consequences for macro stability when financial system assets are concentrated in relatively few individuals, firms, or sectors." **World Bank (2016)**

Financial inclusion as a concept is the use of financial services by individuals and firms, which allows individuals and firms to take advantage of business opportunities, invest in education, save for retirement, and insure against risks[3].

It estimated that First Nations and Inuit-owned businesses were able to access 11 times less market-based capital than most comparative Canadian firms, which represents a tiny fraction of available credit in Canada. **Waterstone Strategies and ATC Innovators (2017)**

It is increasingly recognized that the lack of capital restricts economic development for Indigenous communities[4]. Indigenous Governments, businesses, and entrepreneurs, both on and off reserve, do not have access to the same level of financial markets that support the mainstream economy.

Numerous reports conclude that the lack of access to capital limits the ability of Indigenous businesses to scale up[5]. As a result, the vast majority of these businesses are microenterprises. Moreover, limited access to capital also hinders the advancement of major projects and infrastructure development in many Indigenous jurisdictions. The Government of Canada has therefore committed to "advance economic reconciliation through engagement on key aspects for Indigenous economic development such as initiating discussions on an Indigenous-led investment and financial asset management regime"[6]. It is noteworthy that the existing Indigenous financing regime has limitations. "Although the First Nations Finance Authority (FNFA) does critical work to provide access to capital, its primary role is lending to First Nations governments – not businesses or entrepreneurs. The Indigenous Financial Institutions have mandates to work with Indigenous businesses and entrepreneurs, and have demonstrated success, but are undercapitalized and do not have the capacity to lend at the level that these businesses need to scale up"[7].

The 2022 National Indigenous Economic Strategy (NIES)[8] addresses Indigenous economic aspirations, opportunities, and needs. As the strategy states, "self-government without a significant economic base would be an exercise in illusion and futility. How to achieve a more

[3] World Bank, "Key Terms Explained," accessed June 30, 2023, https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/key-terms-explained.
[4] See First Nations Management Board (FMB), RoadMap Project, accessed June 30, 2023, https://fnfmb.com/en/leadership/roadmap; and
Bank of Canada, "Economic Reconciliation: Supporting a Return to Indigenous Prosperity," May 2022, accessed July 17, 2023, https://www.bankofcanada.ca/2022/05/economic-reconciliation-supporting-a-return-to-indigenous-prosperity.
[5] National Aboriginal Capital Corporations Association and Business Development Bank of Canada, "Research Module 3: Indigenous Entrepreneurship.", accessed October 10, 2023, https://nacca.ca/wp-content/uploads/2017/04/Research-Module-3_NACCA-BDC_Feb14_2017.pdf.
[6] Government of Canada, The United Nations Declaration on the Rights of Indigenous Peoples Act Action Plan, p. 41.
[7] Ibid.
[8] "National Indigenous Economic Strategy (NIES) for Canada 2022: Pathways to Socioeconomic Parity for Indigenous Peoples," accessed June 30, 2023, https://niestrategy.ca/wp-content/uploads/2022/05/NIES_English_FullStrategy.pdf.

self-reliant economic base is thus one of the most important questions to be resolved"[9]. To build the economic base, the NIES outlines the development of strategic pathways in four key areas: people; lands; infrastructure; and finance. The NIES articulates a Finance Vision where "Indigenous peoples and communities have the financial capital to achieve economic and social prosperity on their own terms"[10]. To achieve the NIES vision for finance, twenty-four calls for economic prosperity are set out under the Finance strategic pathway. Among these, we highlight:

- Call 91, Implement tax incentives for private sector and social investors.
- Call 92, Restore, and strengthen funding to build the capacity of Aboriginal Financial Institutions to meet the demand for loans and for the distribution of stimulus funds; and
- Call 93, Create an Indigenous Business Development Bank or intermediary for Indigenous finance.

These three calls provide important guidance on the priority areas for action identified by Indigenous thought leaders. However, without fundamental structural change that significantly improves Indigenous access to capital, it would be unrealistic to expect this vision to be realized. The overall result is to limit participation by Indigenous peoples in the economy and thereby perpetuate the historic economic gap.

1.3 Barriers and Opportunities

The Indigenous economy faces critical barriers in terms of access to financing, which is essential to advancing economic development and transformation. The specific barriers include:

- **Legal and regulatory barriers:** Structural and systemic barriers are at the center of the financing gap faced by Indigenous businesses and entrepreneurs on reserve. Indigenous individuals, businesses, communities, and Nations encounter a number of legal and regulatory barriers, both large and subtle. Property rights underpin the mainstream economy. Restrictions on asset ownership under the Indian Act limit the ability of First Nations businesses and entrepreneurs to leverage on-reserve assets.[11]

  The Indian Act itself is therefore a legal barrier to the ability to access financing since it prevents financial institutions from being able to use assets on reserve as security. Traditional lending institutions often require collateral to secure loans. However, many Indigenous communities do not have the same level of private property ownership as non-Indigenous communities, making it difficult to meet these requirements. The communal land ownership model prevalent in many Indigenous communities does not align with the individualistic collateral system, creating a barrier to accessing finance. In order to make credit accessible on-reserves, it will require the development and implementation of innovative solutions and strategies.

- **Cultural and historical barriers:** Indigenous individuals, businesses, communities, and Nations frequently encounter cultural barriers in their engagement with conventional non-Indigenous institutions. The legacy of colonization, including discriminatory policies and practices, has resulted in significant socio-economic disparities for Indigenous peoples in

[9] Ibid., p.8.
[10] Ibid., p. 31.
[11] FMB, The RoadMap Project, p.41.

Canada. A combination of inexperience, ignorance, and bias can translate into the unfair and inequitable treatment to Indigenous customers and clients. Targeted efforts to rectify imbalances—recognizing that true equality goes beyond uniform treatment—requires addressing inherited privileges and the disparities it upholds. This systematic bias and discrimination can manifest as stricter lending criteria, higher interest rates, or a lack of culturally sensitive financial services. These discriminatory practices create barriers that impede Indigenous individuals and businesses from accessing fair and equitable financial services. These factors have eroded trust in financial institutions and created a sense of exclusion from mainstream economic activities.

- **Fundamental financing barriers:** There are also fundamental financing barriers to consider. These barriers can include: a lack of demonstrated experience in the formal financial system for Indigenous people, businesses, and communities; the absence of a financial track record or a demonstrated ability to regularly meet credit payment conditions; and therefore, the inability to meet traditional creditworthiness criteria and standards to qualify for financing. Detailed (and daunting) credit applications requirements, combined with lack of formal business plans, can dissuade Indigenous entrepreneurs from applying for bank loans. Inadequate financial education and access to resources within Indigenous communities can also impede their ability to navigate the financial system effectively, limiting their access to finance. For Indigenous communities located in remote or rural areas, the limited financial infrastructure and the absence of banks and credit unions makes it challenging for community members to access financial services and products.

Addressing these barriers requires a comprehensive and collaborative approach. Efforts to improve Indigenous access to finance should include targeted financial literacy programs, the development of culturally appropriate financial products and services, partnerships between financial institutions and Indigenous communities, and policy reforms that address historical injustices and promote economic development in Indigenous communities. When these barriers are taken together, they point to an ongoing critical need for culturally aware and dedicated institutions that would be equipped to mobilize financing for the Indigenous economy. **The ideal would be to create Indigenous financial institutions able to serve all participants in the Indigenous economy.**

1.4 Creating a New Pathway

Conditions are ripe for a new pathway in Indigenous economic and social development, shifting from colonial, paternalistic, and dependency-based engagement with Canadian institutions to one rooted in greater Indigenous self-governance and self-determination. This approach recognizes that Indigenous development needs are akin to challenges faced in middle-income developing countries, emphasizing the importance of financial inclusion, capacity building, and improved credit access for holistic community progress. Indigenous development levels in Canada are comparable to those in developing economies, considering factors such as demographics, poverty rates, health outcomes, education quality, and entrepreneurship. This shift departs from the current approach which upholds the existing economic and social structures. Instead, it centers on Indigenous Traditional Knowledge, respecting Indigenous wisdom, values, and cultural heritage that have sustained communities for generations in which community building takes precedence, highlighting strong, self-sustaining Indigenous communities as the cornerstone of broader development. This approach encourages local solutions and collaborative efforts aligned with Indigenous needs, fostering unity and resilience. The institutional arrangements for mobilizing Indigenous financing should therefore be able to address those broader needs to build Indigenous financial inclusion. These broader objectives to promote greater financial access and capacity building.

United Nations Declaration on the Rights of Indigenous Peoples

Article 5*: Indigenous peoples have the right to maintain and strengthen their distinct political, legal, economic, social, and cultural institutions, while retaining their right to participate fully, if they so choose, in the political, economic, social and cultural life of the state.*

Article 23*: Indigenous peoples have the right to determine and develop priorities and strategies for exercising their right to development.*

Successful economic and social development needs to be built on a foundation of sufficient and appropriate access to capital. To facilitate the mobilization of ample financing and create a framework that fosters positive economic incentives, it is imperative to transition away from heavy reliance on budgetary funding and subsidies. Instead, there is a need to embrace innovative approaches for resource mobilization and capital access, with a growing emphasis of commercial principles. Rather than being the primary source of funding, budgetary financing could be strategically directed to complement the broader resource mobilization efforts. For instance, it can serve as a safety net for higher-risk financing or provide interest rate subsidies under specific conditions, thereby amplifying impact and efficiency. Indigenous financial institutions that can serve all participants in the Indigenous economy can be an important part of this transformation. These institutions serve as essential facilitators, contributing to the diversification of financial resources and ensuring that the Indigenous economy thrives by providing accessible and tailored financial solutions for various participants.

The United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) provides some valuable guidance on the foundational conditions for any such institution.

UNDRIP is a comprehensive international instrument that outlines the collective and individual rights of Indigenous peoples. It aligns with the truth and reconciliation process in Canada by recognizing and affirming the rights of Indigenous peoples, including their right to self-determination, culture, land, and resources. UNDRIP also plays a crucial role in promoting the economic empowerment of Indigenous people in Canada. It recognizes their right to participate in decision-making processes that affect their economic development, land, and resources. It encourages the development of policies and programs that support Indigenous entrepreneurship, access to capital and markets, and the protection of Indigenous traditional knowledge and resources[12].

[12] United Nations General Assembly, "United Nations Declaration on the Rights of Indigenous Peoples," resolution adopted by the General Assembly on 13 September 2007, A/RES/61/295, accessed June 30, 2023, https://www.un.org/development/desa/indigenouspeoples/declaration-on-the-rights-of-indigenous-peoples.html.

1.5 Purpose of the Study

On 10 May 2023, the First Nations Financial Management Board (FMB) and Momentus Global (formerly International Financing Consulting Ltd.) signed an agreement to undertake a scoping study on possible options for addressing gaps in Indigenous access to finance.

This scoping study, conducted by Diana Smallridge, Glen Hodgson, and Eva Miras, examines the current context for Indigenous access to financing – market conditions, needs and financing gaps, case studies, principles for the development of Indigenous finance. This report examines available options and identifies the preferred approaches to pursue, making a policy case for the establishment of an Indigenous Development Bank.

Momentus Global (formerly International Financing Consulting Ltd.) is a Canadian-based, women-owned global advisory firm which works with National Development Banks around the world in nearly 80 countries and has published extensively on the role and function of Development Banks as vital policy instruments in economic development and addressing critical issues of financial access and climate change. www.momentus.global

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2. Market Need for Indigenous Finance

2.1 Introduction

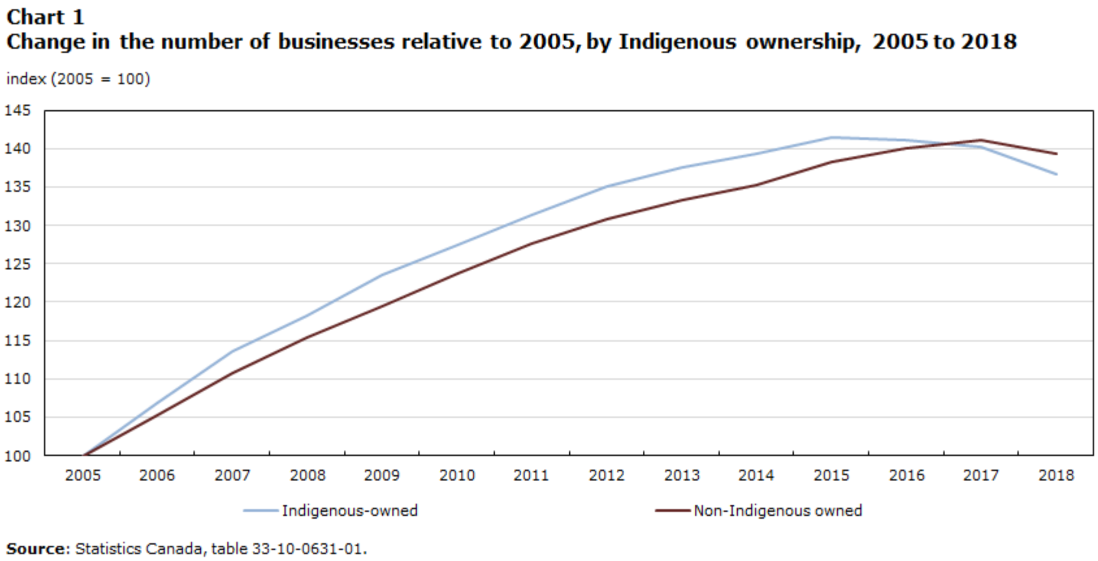
The market need for Indigenous finance in Canada has gained significant recognition in recent years. As part of efforts towards reconciliation and promoting economic development, there is a growing understanding of the unique challenges faced by Indigenous communities in accessing financial services and capital. Indigenous businesses and communities continue to face significant challenges in accessing sufficient financing for economic development and business growth on affordable terms.

Several recent trends speak to the enormous untapped potential of the Indigenous economy:

- The Indigenous population in Canada is young and growing fast.
- The number of employed Indigenous people grew by almost 45% between 2006 and 2016.
- The percentage of First Nations, Métis, and Inuit with secondary school education or higher has been growing faster than that of non-Indigenous people.

The number of Indigenous entrepreneurs is rising, and Indigenous businesses are performing well[13].

FIGURE 1: Growth in Indigenous Entrepreneurship (2005-2018)



Source: Statistics Canada[14]

The Indigenous economy is an integral part of the broader Canadian economy, contributing to national GDP, job creation, and overall economic growth. Recognizing and supporting the Indigenous economy is not only a matter of economic empowerment and social justice but also

[13] Lawrence Schembri, "Economic Reconciliation: Supporting a Return to Indigenous Prosperity," speech presented at the Bank of Canada, May 5, 2022, https://www.bankofcanada.ca/2022/05/speech-lawrence-schembri-may-5-2022/.
[14] Statistics Canada, "Indigenous Peoples in Canada: Key Results from the 2016 Census", accessed October 10, 2023, https://www150.statcan.gc.ca/n1/pub/36-28-0001/2022012/article/00004-eng.htm.

a pathway towards reconciliation and building stronger, more inclusive economies and societies in Canada.

Building on the NIES, this chapter provides the context on the potential market for Indigenous finance and discusses areas of expected demand and specific needs.

Terminology

The term Indigenous finance includes all forms of financing that could be made available to Indigenous Nations, communities, businesses, on reserve or off reserve and for First Nations, Inuit, or Métis.

Indigenous finance may include:

- market-based financing that is expected to earn a commercial return.
- financing from a Crown financial institution with higher risk appetite; or
- blended/concessional financing that is supported by government in some fashion, such as via loan guarantees, interest rate subsidies, early-stage investments; or
- budgetary transfers and grants.

The types of Indigenous finance can include loans, debt issuance, guarantees, venture capital, equity issuance, and contract bonding.

There are many well-known gaps in available Indigenous financing, which include:

- Indigenous Business Finance
  - Start-ups/Small businesses
  - Mid and Larger companies
  - Contractors
- Indigenous Nations, Governments and Communities
- Indigenous Investment in Major Projects
- Nations and Communities
- Infrastructure – Water, Roads, Power, Connectivity
- Housing and Home Ownership

Securing access to financing for Indigenous businesses is an ongoing challenge. There is a significant risk that limited access to financing will impede the potential for Indigenous economic development, business success, and impair the reconciliation process.

Indigenous businesses cover the full range of identity groups (First Nations, Inuit, and Métis), regions and industry types, including the natural resources, construction, manufacturing, retail, and service sectors. They tend to be quite small; three-quarters are unincorporated and more than six in ten have no employees.

Indigenous businesses focus primarily on local markets and within their own province/territory. Nonetheless, half have customers in other provinces and territories and substantial minorities have clients in the U.S. (25%) or other countries (17%). More than one in three Indigenous businesses (36%) create employment for others, although the proportion of businesses creating full-time or temporary employment has declined since 2010, as has the rate of Indigenous employment within these firms[15].

> More than one in three Indigenous businesses create employment for others…
> **Canadian Council for Aboriginal Business, 2016**

Access to equity/capital and to financing continues to be an issue, particularly for start-ups and growth-focused firms. Many firms rely heavily on personal savings for start-up and ongoing financing, together with retained earnings. A key bottleneck is locating potential sources of funding: half of businesses have found this to be very or somewhat difficult. The patchwork nature of funding is obvious; for example, among the four in ten Indigenous businesses who have used a government program to support their business via training or employment support, a total of 27 different programs or sources were mentioned. Awareness of these programs is shared primarily by word-of-mouth between business owners.

Another financing-related concern is meeting the qualifications or requirements for lending; almost half (45%) of Indigenous firms have had difficulty with this. This is perhaps not surprising, given that only three in ten have a formal business plan (which is typically required documentation), and this proportion has not increased since 2010[16].

2.2 Start-ups and Small Businesses

Indigenous small businesses often lack equity leverage from home ownership (or non-recognition of its equity value) and the non-standard economic environment limits business opportunities and growth potential. For Indigenous small businesses, even accessing basic business financing such as lines of credit and working capital is a challenge, severely constraining their ability to grow beyond a start-up stage. The noted exception is where geographical location (Squamish, Westbank, Tsawwassen, Six Nations, Wendake) and major projects/resources (oil patch, mines, hydroelectric development) provide diversified learning and engagement opportunities[17].

2.3 Mid-size and Larger Businesses

Mid-size and larger private or community-owned businesses are often the businesses that drive the Indigenous economy and local economies and create the business opportunities for smaller businesses in a community. However, there is only limited market and government-backed financial support that meets the needs of this group of firms, which is often referred to as the "missing middle", encompassing businesses with annual revenues in the range of $5 to $20 million.

Research indicates that when they are able to access financing, these mid-sized businesses usually rely on a combination of equity contribution and commercial loans from market sources backed not by their business earning potential, but by community assets or own-source

[15] Canadian Council for Aboriginal Business (CCAB), "Procurement Practices and Aboriginal Business: Perspectives from Canadian Corporations," report, accessed June 30, 2023, https://www.ccab.com/wp-content/uploads/2016/10/CCAB-PP-Report-V2-SQ-Pages.pdf, pp. 5-8.
[16] Ibid., pp. 5-8.
[17] Ibid., p.44.

revenues[18]. Direct commercial bank financing is difficult to access in many regions, in part because of the absence of a risk-sharing partner, conventional loan guarantees, or direct credit programs on reserves. It may also reflect the pressure on community-owned businesses to meet urgent community needs for cash to support social and housing programs, which could prompt questions about their business model and creditworthiness.

Overall, the available research suggests that Indigenous businesses face a severe financing constraint and have been able to access only around one-tenth of the financing accessed by mainstream Canadian businesses from market and government-backed sources[19]. This result points to a significant financing gap and the need for a new approach for mobilizing financing.

Case Study #1: Financing Barriers for Indigenous Food Producers: Insights from Tea Creek's Experience

Jacob Beaton is the owner of Tea Creek, an award-winning Indigenous-led initiative focused on food sovereignty and trades training. Jacob's experience sheds light on the challenges faced by Indigenous communities in accessing financial resources in Canada, focusing specifically on the challenges Indigenous food producers face in accessing financing and the potential solutions that can drive economic growth and self-sustainability within the Indigenous agricultural sector.

Land access is the first major barrier for Indigenous food producers, partly due to not being able to obtain financing for land. Access to capital is the second major barrier. There is limited access to land development financing tools, even when Indigenous people own the land.

Traditional commercial banks often demonstrate reluctance to provide loans to Indigenous food producers, demanding Band guarantees that are frequently unattainable. Moreover, the lack of support from Farm Credit Canada (FCC), with only one loan provided to an Indigenous-owned farmer in British Columbia, highlights the lack of support from established financial institutions and a lack of priority given to Indigenous agricultural ventures. The arbitrary notion that land will be subject to Addition to Reserve (ATR)—the process of acquiring private land to add it to the reserve—has been used as an excuse and often acts as a deterrent for banks to provide financing. This situation restricts opportunities for Indigenous farmers to obtain financing and inhibits the growth of their enterprises.

A significant concern raised is the limited effort of existing institutions in channeling financial resources directly to Indigenous communities. Indigenous money is often absorbed by intermediaries and consultants, bypassing the intended beneficiaries. Ensuring that financial support reaches Indigenous communities directly should be a priority, avoiding unnecessary detours that diminish the potential impact of these resources. Encouraging economic growth within the Indigenous agricultural sector requires Indigenous-led businesses and entrepreneurs to be at the forefront. It is crucial to ensure that these businesses received the necessary funding and are owned and operated by Indigenous individuals, creating local jobs, and benefiting Indigenous organizations and communities.

[18] National Aboriginal Capital Corporations Association (NACCA), "Improving Access to Capital for Aboriginal Entrepreneurs," report, accessed June 30, 2023, https://nacca.ca/wp-content/uploads/2017/04/NAEDB_ImprovingAccessToCapital.pdf, p. 44.
[19] Ibid., p.40.

2.4 Indigenous Governments and Communities

Indigenous governments also require improved access to financing to address priority community needs, to be able to provide financial support to their business community as required, and concurrently be able to manage and meet their fiscal responsibilities effectively over time. Another important barrier to Indigenous finance, beyond that of collateral, is the lack of own-source revenue. For example, in 2013, 20% of First Nations had essentially zero own-source revenue[20]. FMB is advocating the practice of monetization by leveraging annual cashflows into long-term debt to build key infrastructure for communities to address the widening infrastructure gap between the rest of Canada and First Nations communities. It is believed that the 10-Year Grant funding will support First Nations to build stronger communities over the long term as it will allow them to plan over several years and use this grant to mobilize capital through the First Nations Finance Authority (FNFA) debenture to amplify the impact. Such an arrangement demonstrates the transformative potential of the 10-Year Grant in enabling First Nations to address critical infrastructure needs and drive sustainable community development.

As a reminder, most small and remote mainstream towns and municipalities benefit from senior provincial government expertise and regulatory oversight on issues such as capital project planning and delivery, public procurement, and financial management, including through regional pooling of public services and resources. Indigenous communities often face larger challenges in accessing senior management and financial expertise due to capacity shortages, such as funding or organizational skills to retain high-quality staff and expertise, coupled with lower salaries and benefits and a broad remit of addressing housing adequacy and promoting community development.

Mainstream community borrowing mainly takes the form of general obligation bonds, while Indigenous Nations and communities have traditionally been dependent on federal budgetary transfers and have only recently been able to access debt financing via FNFA bond issuance, from which only eligible First Nation governments can benefit. There is a critical gap faced by a significant number of Indigenous communities in terms of both access to expertise for financial oversight and management, and in the ability to mobilize financing on affordable terms.

[20] Dominique Collin and Michael L. Rice, "Evening the Odds: Giving Indigenous Ventures Access to the Full Financial Toolkit," accessed June 30, 2023, https://macdonaldlaurier.ca/files/pdf/MLI_IndigenousCapital_F.pdf.

Case Study #2: Limited Access to Financial Options and Capital for Indigenous Populations in Nunavik

As in other parts of Canada, indigenous populations in northern Canada face challenges in accessing financial options and capital due to their unique circumstances and remote locations, and the limitations of existing financial institutions. The reliance on a single financial institution in Northern communities is a common experience, which poses a risk as any issues or changes could disrupt their access to credit entirely, highlighting the need for diversification. While some traditional banks have been able to maintain a good relationship with remote Indigenous communities, the lack of alternative options leaves them vulnerable. The unique market conditions in the north, such as the absence of a robust land resale market and difficulties in monetizing assets, present significant challenges for financial institutions. Security pledging moveable assets or accounts receivable becomes crucial in securing financing.

This is true of the experience with the Nunavik Landholding Corporations (LHCs), where CIBC has been the primary source of financing for landholding projects. In this case, CIBC predominantly funds infrastructure projects, but there is a need for funding in other areas that are more difficult to secure, such as heavy machinery. However, securing financing from traditional banks, such as CIBC, often requires navigating through multiple bureaucratic hurdles, such as comprehensive business plan and a detailed breakdown of subsidies, which can cause limitations in access to finance.

Capacity and governance issues further complicate matters. Small community sizes and the high turnover of external staff pose challenges for capacity building and effective governance. Political influences and decision-making can impact the availability of subsidies and loans, creating uncertainties and barriers for Indigenous communities in accessing financial support.

In conclusion, the limited access to financial options and capital for Indigenous populations in northern Canada hinders economic growth and development. Diversifying financial sources, addressing unique market conditions, creating specialized financing mechanisms, providing capacity-building tools, and fostering collaboration among Indigenous communities are key steps towards ensuring equitable financial opportunities and fostering economic prosperity in these regions.

2.5Indigenous Investment in Major Projects

Resource development is a key growth opportunity for the Indigenous economy. There are numerous resource development investment opportunities that could include Indigenous Nations; in many cases, domestic and international investors would benefit from having Indigenous investor partners. This investment opportunity is a key step forward in the reconciliation process, an important element of strengthened Indigenous economic development with greater socio-economic benefits, and also a means of building social licence and legitimacy for specific resource development projects that can help smooth the regulatory approval process.

However, at present there is no identifiable dedicated source of financing for Indigenous investment in resource development projects. In principle, debt and equity financing might be identified from multiple sources, including. government budgets, federal Crown corporations, commercial banks, private investment funds, and not-for-profit sources, but the amounts currently available are likely to be constrained and the process for accessing financing poorly defined. It is instructive that the limited research material available barely mentions mobilizing Indigenous financing for resource development, which is probably an accurate reflection of the current availability of such financing.

The First Nations Major Project Coalition (FNMPC) has been created to advance Indigenous interests in major resource and other projects. It is seeking to:

- Safeguard air, land, water, and medicine sources from the impacts of resource development by asserting its members' influence and traditional laws on environmental, regulatory and negotiation processes;
- Receive a fair share of benefits from projects undertaken in the traditional territories of its members, and;
- Explore ownership opportunities of projects proposed in the traditional territories of its members.

FNMPC is currently providing business capacity support to its members on 10 major projects located across Canada, each with a First Nations equity investment component, and a portfolio exceeding a combined total capital cost of over $40 billion representing a significant financing requirement if First Nations are to hold meaningful equity stakes in these major projects. FNMPC's business capacity support includes tools that help First Nations inform their decisions on both the economic and environmental considerations associated with major project development[21].

2.6Infrastructure

Infrastructure represents another critical market segment for sustained Indigenous economic development. Between 2007 and 2013, the First Nation Infrastructure Fund (FNIF) provided $234 million in funding for community infrastructure in First Nations communities. In 2014–2015, the FNIF was renewed to allocate a total of $155 million over 10 years[22].

However, these sums are well short of the estimated funding needed for developing adequate community infrastructure. The 2015 report by the Standing Senate Committee on Aboriginal Peoples on housing and infrastructure estimated water infrastructure, sanitary & storm sewers, roads, street lighting, and lot hook-up needs of $8.2 billion, of which $1.0 billion was for water and wastewater. In comparison, available financing in the 2015-16 Main Estimates was $1.2 billion, of which $330 million was for water[23].

The federal government had pledged to close the gap by 2030. However, current studies underway reportedly puts the infrastructure gap at a staggering $349.2 billion (and this estimate does not include Métis settlements or Inuit communities)[24]. The reality is that the infrastructure gap between Indigenous communities and the rest of Canada continues to widen, with a

[21] First Nations Major Projects Coalition, "First Nations Major Projects Coalition", accessed June 30, 2023, https://fnmpc.ca/.
[22] Canada, Senate of Canada, "Report of the Standing Senate Committee on Aboriginal Peoples: The Challenges and Successes of Indigenous Economic Development in Canada," June 12, 2015, accessed June 30, 2023, https://sencanada.ca/content/sen/Committee/412/appa/rep/rep12jun15-e.pdf, p.10.
[23] Ibid., p. 48.
[24] Ernie Daniels, "How Ottawa could turn $200 million into $4 billion for Indigenous infrastructure", Financial Post, March 21, 2023, https://financialpost.com/news/economy/paternalism-partnership-close-indigenous-infrastructure-gap.

substantial financing shortfall for basic community needs. While recent budget increases in Indigenous infrastructure funding are notable, they still fall short of significantly closing this gap[25].

ELECTRICITY GENERATION, TRANSMISSION, AND DISTRIBUTION

There is considerable potential for Indigenous investment in electricity generation and distribution. Many Indigenous Nations are under-served by provincial power utilities and rely on conventional energy sources like diesel-powered generators for local power production. Indigenous Nations are looking at options for building their own power generation capacity, ideally on a more sustainable basis.

The transition away from greenhouse gas (GHG) emission-intensive energy and toward an economy with low GHG emissions means there will be growing pressure, and opportunity, to invest in new energy sources with no or low GHG emissions such as renewable electricity from wind, solar and small-scale hydro, plus storage capacity. The federal government introduced five new clean investment tax credits in Budget 2023, including incentives for electric vehicles, energy-efficient homes, clean technology, biofuels, and hydrogen production designed to encourage investments that contribute to a more sustainable and environmentally friendly future for Canada[26].[27]. But all of this will require access to project financing. Indigenous Nations could in principle be active investment participants in the energy transition, which would be aligned with traditional values in preserving ecosystems, but only if they can access adequate financing for energy investment. Ideally, they could invest in low-emission renewable energy alternatives, which are often cost-competitive compared to conventional energy, and even be able to sell surplus power generation into a wider electricity grid.

TELECOMMUNICATIONS

Telecommunications are another area where remote Indigenous Nations have been under-served by traditional utilities. Advances in technology are making it increasingly possible to leap forward and consider digital means of connecting inside and outside the community via telephone and the internet. Indigenous Nations are now examining how to build and operate their own telecom capacity. But reliable access to financing is a key variable for progress.

There are also the infrastructure financing requirements to enhance the value of lands set aside for economic development purposes, most often for long-term residential or industrial leasing to non-members. A significant and growing proportion of Indigenous access to commercial loan financing for infrastructure is directed at the needs of First Nations with important economic development opportunities in terms of land leasing. The needs and potential are significant, yet there is often a mismatch between a Nation's property taxation revenues and commensurate local government_expenditures. This leaves a significant financing gap to address if longer-term infrastructure needs and development objectives are to be adequately addressed.

[25] Allan Clarke, "Nation Building: Unlocking Indigenous Potential to Power Canada's Net Zero Economy - RBC Thought Leadership.", accessed on October 10, 2023, https://thoughtleadership.rbc.com/nation-building-unlocking-indigenous-potential-to-power-canadas-net-zero-economy/.

[26] Government of Canada, "Minister Guilbeault highlights the big five new Clean Investment Tax Credits in Budget 2023 to support sustainable made-in-Canada clean economy", accessed October 10, 2023, https://www.canada.ca/en/environment-climate-change/news/2023/04/minister-guilbeault-highlights-the-big-five-new-clean-investment-tax-credits-in-budget-2023-to-support-sustainable-made-in-canada-clean-economy.html.

[27] Glen Hodgson, "Game On: Implications of the U.S. Inflation Reduction Act for Canadian Competitiveness," C.D. Howe Institute, June 2022, accessed July 17, 2023, https://www.cdhowe.org/public-policy-research/game-implications-us-inflation-reduction-act-canadian-competitiveness.

2.7 Housing and Home Ownership

Adequate housing for Indigenous people is both a basic human need that demands to be addressed, and a potential source of economic opportunity and wealth creation as an initial source of capital for entrepreneurs. There are competing visions for how better housing for Indigenous people should be developed and financed (e.g., investment in social housing funded from fiscal transfers, versus loan-based owned properties), but it is clearly a priority topic in Indigenous financing. The consultations suggested there is a need to identify how to lend for housing without using land as collateral. Different home ownership and financing models need to be reconsidered and tested, including looking at other innovative financing initiatives in Indigenous communities and globally.

For example, the First Nations Market Housing Fund has a mandate to facilitate access to financing for loan-based housing in First Nations communities. The Fund helps create the capacity in First Nations communities to support and sustain loan-based housing programs, thereby contributing to the social welfare and civic improvements of First Nations communities and their residents. The overarching goal is to promote a system in which First Nations residents have the same housing opportunities on communally held lands – be they reserve, settlement, or lands set aside – as mainstream Canadians have in their communities. As the Fund focuses on increasing the opportunities for on-reserve loan-based homeownership, its vision is that every First Nation family has the opportunity to have a home on their own land in a strong community[28].

On reserves, where the Indian Act governs land and housing management, a significant proportion of Indigenous people live in subsidized housing provided by the federal government or First Nation governments. This reliance on subsidized housing is partly due to historical and systemic factors that have limited Indigenous communities' access to private home ownership, as well as the lack of available financing options and infrastructure in remote and isolated areas. First Nation subsidized housing is also a response to lower income levels on reserves.

The critical lack of housing on reserve is leading to overcrowding and significant housing shortages. These challenges result in substandard living conditions that have significant social, health, and economic impacts on Indigenous communities, especially given the changing demographics within the indigenous populations.

Addressing the housing situation requires collaborative efforts among governments, Indigenous leadership, and housing organizations. Initiatives are needed to improve housing infrastructure, increase access to affordable financing options, and provide support for capacity-building in housing management within Indigenous communities. Efforts should also focus on empowering Indigenous communities to have greater control over their housing decisions and supporting the development of culturally appropriate housing solutions that meet their specific needs.

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[28] First Nations Market Housing Fund, First Nations Market Housing Fund, 2022 Annual Report, accessed June 30, 2023, https://fnmhf.ca/wp-content/uploads/2023/06/fnmhf-2022-annual-report.pdf, p.4.

Case Study #3: Membertou First Nation's Challenges in Housing, Land Ownership, and Finance

Membertou First Nation, a Mi'kmaq community in Nova Scotia, has faced significant challenges in accessing housing, land ownership, and financial resources. The historical reluctance of banks to lend to Indigenous communities hindered their access to capital. However, by building personal relationships with bank managers, Membertou successfully secured smaller loans, and was able to build up the community over time.

Diversifying cashflows on reserve proved to be another obstacle for Membertou. Despite lacking infrastructure, the community established trust-based relationships with contractors, bankers, and suppliers. Over the past two decades, Membertou expanded its land ownership from 350 acres to 2000 acres by leveraging mortgage agreements over extended periods. This innovative approach enabled the community to circumvent the limitations imposed by banks and the Indian Act, relying on reputation, trust, and handshake agreements. Membertou found that some banks demonstrated a better understanding of Indigenous finance than others and focused on the substance of transactions and financial viability rather than bureaucratic paperwork, fostering a supportive banking relationship and contributing to Membertou's economic growth.

In their housing projects, Membertou worked with the Canada Mortgage and Housing Corporation (CMHC). However, the CMHC's Section 95 program, offering on-reserve housing interest subsidies, fell short of meeting the community's needs. Faced with bureaucracy and limited support, Membertou turned to financial institutions to facilitate on-reserve housing construction, highlighting the need for alternative avenues when government programs prove insufficient.

For Membertou, challenges remained in securing financing for major infrastructure projects, such as those in the wind and energy sectors. The lack of experience and understanding of Indigenous communities' needs by financing institutions, including Crown Financial Institutions, hindered progress. Membertou expressed the need for specialized Indigenous financial institutions with expertise in infrastructure financing to provide the necessary support.

Membertou First Nation's experiences shed light on the barriers Indigenous communities face in accessing finance, housing, and infrastructure financing. They highlight the importance of trust-based relationships, overcoming systemic barriers, and the need for specialized Indigenous-led financial institutions. By addressing these challenges, policymakers and financial institutions can work towards a more inclusive and equitable financial landscape for Indigenous entrepreneurs and communities across Canada.

2.8 Other Market Segments

AGRICULTURE, FISHING, FOOD PROCESSING

The food value chain, from field and ocean to table, is an Indigenous business segment with growth potential that requires financing to expand. The Clearwater Fisheries transaction is an interesting example of how Indigenous communities can assume an ownership stake in the food supply segment.

Case Study #4: Unlocking Opportunities for Indigenous Communities

The groundbreaking deal between Indigenous communities and Clearwater Seafoods, a leading seafood company in Canada, represents a transformative partnership and presents a significant opportunity for Indigenous communities to actively participate in the economic development of the seafood industry while fostering sustainable practices and community empowerment. The deal involves the Indigenous-led acquisition of Clearwater Seafoods by Mi'kmaq First Nations and other Indigenous communities with an estimated deal value of approximately $1 billion, financed through a combination of equity investment and debt financing. Through their ownership, Indigenous communities gain decision-making power, profit-sharing, and the chance to create sustainable economic opportunities and jobs within the seafood industry. Moreover, this deal aligns with Indigenous values of environmental stewardship, fostering responsible fishing practices and the preservation of marine ecosystems. It also promotes cultural preservation by allowing communities to revitalize traditional fishing practices and pass down cultural knowledge to future generations. This groundbreaking partnership showcases the potential for inclusive economic growth and reconciliation in Canada's seafood sector.

The full food supply chain is an attractive segment in which to operate because of its overall stability and solid consumer demand through the business cycle. There is usually steady growth in food demand tied to population and income growth trends, making it largely recession resistant. Barriers to market entry for new food supply are also comparatively low, although work is needed to build Indigenous technical and management skills in agriculture, fishing, and across the food supply chain.

SERVICES

The services segment cuts a wide swath through the Indigenous economy, encompassing commercial and retail, personal, professional, and entertainment services. The need for expanded access to financing for the Indigenous services economy may differ widely by sub-segment and business, but improved access to start-up and growth financing will be key for almost all services businesses. A sub-segment like commercial and retail will need investment and inventory financing, although this sub-segment also has access to requisite cash flows from its business to meet its debt payment obligations.

Entertainment services like casinos have distinct financing needs, and notably significant investment and start-up costs; they also have clear financial advantages in term of revenues generated once they are operating sustainably. This business model has allowed some Indigenous entertainment service businesses to tap into bond markets directly for financing[29].

LIGHT MANUFACTURING

Light manufacturing has potential as a niche market in the Indigenous economy, particularly when it can differentiate itself by building on Indigenous culture and heritage. More reliable access to

[29] The River Cree Resort and Casino in Edmonton was reportedly the first Aboriginal-owned corporation to issue public debt (evaluated at C$200 million by the Globe and Mail) with a successful cross-border bond issue with a B-rating from S&P and DBRS. Waterstone Strategies and ATC Innovators, "First Nations and Inuit Access to Capital for Economic Development, Business and Infrastructure: A Quantitative Assessment of the Access and the Gaps", accessed June 30, 2023, p.23.

financing – in amounts beyond what is currently offered by BDC (which lends up to $350,000)[30] – among other key inputs, could help light manufacturing in Indigenous communities to transition from the informal sector into a business sector that is more formal and sustainable.

CONSTRUCTION AND ENGINEERING

A key challenge for Indigenous contractors is the ability to post bonds – advance payment or performance bonds. Similar to working capital, these facilities usually require cash or other forms of collateral to be issued by a bank or specialized surety company. Bonds are also needed for Indigenous businesses to bid on government procurement contracts.

Case Study #5: Bonding by First Nations' Construction Firms

There is a significant challenge in accessing bonding and credit support for projects by Indigenous construction firms generally. There are fundamental questions about the value of security. Insufficient access to bonding means that cash is required to backstop these projects, which is an expensive drain on construction firm balance sheets. Financial constraints on-reserve also make it more difficult for Indigenous construction firms to pursue business opportunities off-reserve.

EDC is the federal Crown financial institution that currently offers a domestic bonding program as it is really the only Crown financial institution with the expertise to provide this program. EDC's mandate is export-related and has an eligibility requirement that is linked to exports Indigenous construction firms have stated that EDC's bonding and guarantee powers have made it possible for them to win contracts that are off reserve, which are typically harder for them to obtain. EDC has partnered with the First Nations Bank of Canada on projects and ten First Nations firms have benefitted from this program.

However, EDC's transaction-oriented and export-based qualifying criteria for accessing the program are hard to meet. The criteria are constraining for many new market entrants since there have been very few past opportunities for Indigenous businesses to export.

It has been suggested that the EDC eligibility criteria could focus more on identifying and building export opportunities for indigenous firms, not on past exports.

There are sectors, such as forestry, logistics, etc., that face similar financing challenges for working capital.

[30] https://www.bdc.ca/en/i-am/indigenous-entrepreneur

Momentus

3. Current Availability of Indigenous Finance

3.1 Indigenous Financial Institutions and Arrangements

An array of established and emerging Indigenous financial institutions, programs, and arrangements are mobilizing financing in Canada. These entities operate in various regions and areas, working to address the many gaps in Indigenous finance. Among the key institutions and arrangements are multiple Indigenous financial institutions (IFIs) programs, government initiatives, and partnership agreements.

There are essentially four sets of Indigenous financial entities already representing a source of market finance to Indigenous communities:

- The institutions established under the First Nations Fiscal Management Act (the FNTC, FNFMB and FNFA)
- NACCA and the 58 Indigenous Finance Institutions
- Funds (e.g., Indigenous Growth Fund, Raven Indigenous Impact Fund)
- The First Nations Bank of Canada, Me-Dian credit union in Manitoba, Peace Hills Trust, and four caisses populaires in the Desjardins Group in Quebec (including Wendake and Kahnawake)

These actors play a crucial role in providing tailored financial services, support, and resources to Indigenous communities, entrepreneurs, and businesses. The key institutions and arrangements include the following:

The First Nation Finance Authority (FNFA): FNFA is a First Nations-led, not-for-profit, pooled borrowing and investing institution. Its mandate is to secure short and long-term financing for its borrowing members with the best possible credit terms, provide investment services to members and First Nation organizations, and to provide advice regarding development of long-term financing mechanism for First Nations. To become a member of FNFA, a First Nation government works with FMB to develop a Financial Administration Law and to achieve Financial Performance Certification. Once Certification is achieved, the First Nation can request to be a member of FNFA and thus be able to access bond market funding under FNFA, based on a formal loan request and a Borrowing Law.

By 2022, FNFA had grown to 142 members. It had assets and liabilities of $2.2 billion in 2022, based on nine debenture issues[31].

Indigenous Financing Institutions (IFIs): IFIs are autonomous, Indigenous-controlled, community-based financial organizations. IFIs provide developmental lending, business financing and support services to First Nations, Métis, and Inuit businesses in all provinces and territories. Support can include business loans, non-repayable contributions, financial and management consulting, and business start-up and aftercare services.

There are currently 58 IFIs which are members of the National Aboriginal Capital Corporations Association (NACCA), with different levels of capitalization and operations. NACCA is a network of

[31] First Nations Finance Authority, "Annual Report 2021," accessed June 30, 2023, https://www.fnfa.ca/en/annual-report-2021/.

IFIs dedicated to stimulating economic growth for all Indigenous people in Canada. NACCA supports the network by building IFI capacity and fostering Indigenous business development. NACCA's goal is to provide opportunities for Indigenous entrepreneurs and increase prosperity for Indigenous people in Canada. These efforts increase social and economic self-reliance and sustainability for Indigenous people and communities nationwide[32].

The IFI network plays a critical role in filling the financing gaps and unmet needs faced by Indigenous entrepreneurs. It has provided 50,000 loans totaling $3 billion to businesses owned by First Nations, Métis, and Inuit people. The majority of IFIs can reportedly provide individual loans of up to $500k-750k (loans and contributions), although some IFIs are limited to lending much smaller amounts due to a small capital and operating base[33].

IFIs have made greats strides in removing many of the historical obstacles to financing. By building trust and capacity within individual communities, NACCA has more than doubled new annual loan volumes since 2005.[34] IFIs make loans that conventional financial institutions cannot, by identifying risks and then mitigating those risks by helping Indigenous entrepreneurs avoid them. IFIs have become experts in risk assessment, mitigation, and management for Indigenous entrepreneurs and communities. The success of NACCA and the IFI network stems directly from how well these financial institutions know their clients. Working closely to support their borrowers has helped them build strong relationships and a solid understanding of their needs and financial capacity. And although IFIs take on more risk than conventional commercial lenders, annual loan losses averaged only 2.1% in 2019-20[35].

The Indigenous Growth Fund, set up and managed by NACCA, was created in FY 2022. With investment from BDC and capital of $150 million, its goal is to provide greater access to capital for Indigenous entrepreneurs, where BDC is an anchor investor in partnership with NACCA. The investment fund provides improved access to capital for Indigenous Financial Institutions and Indigenous small and medium-sized enterprises (SMEs), overcoming some of the barriers they have historically faced. The fund is intended to be an innovative evergreen model, offering institutional and social impact investors a direct vehicle to contribute to economic reconciliation.

Capital from the Fund is intended to help IFIs continue to support Indigenous business clients in their communities and will unlock pent-up loan demand for new and expanding Indigenous businesses, allowing them to make loans available to more and larger businesses. The Fund is structured to accept investments from accredited investors, such as public and private foundations, Indigenous trusts, corporate Canada, and other institutional investors[36].

The Raven Indigenous Impact Fund, developed by Raven Indigenous Capital Partners, focuses on providing investments to early and growth stage Indigenous companies in Canada and the United States, offering $250k-$3.5M Indigenous-led equity investment in Indigenous businesses that are mission-driven and innovative[37]. Raven Indigenous Capital Partners is a Canadian investment firm

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[32] Ibid.
[33] NACCA, "Home," accessed June 30, 2023, www.nacca.ca.
[34] Schembri, Op. Cit.
[35] NACCA, "Indigenous Financial Institutions," accessed June 30, 2023, https://nacca.ca/indigenous-financial-institutions.
[36] National Aboriginal Capital Corporations Association, "Indigenous Growth Fund", accessed July 17, 2023, https://nacca.ca/IGF/.
[37] Raven Indigenous Capital Partners, "Impact Funds," accessed July 17, 2023, https://ravencapitalpartners.ca/investments/impact-funds.

that focuses on supporting Indigenous-led and Indigenous-owned businesses and their approach includes making strategic investments, supporting innovative business ideas, and fostering economic self-reliance and sustainability for Indigenous peoples in Canada.

There are also a few **Indigenous banks and credit unions,** including:

- Peace Hills Trust (around 40+ years of operations and operating in every province except Quebec, with deposit taking plus lending);
- First Nations Bank of Canada (80% Indigenous-owned, Inuit and Métis, supported by TD Bank);
- Caisses Populaires in the Desjardins Group in Quebec (including Wendake and Kahnawake).

These banks and credit unions operate as commercial financial institutions that provide deposit-taking and lending financial services to their Indigenous clients and members.

Private Indigenous investment funds are emerging. Vancouver-based Longhouse Capital Partners Inc. was recently established to collaborate with First Nations on both investments and training the next generation of business leaders. It is aiming to raise up to $1 billion to fund its activities. Longhouse is led by co-founder and chief executive officer Fred Di Blasio, a member of the Huron-Wendat Nation and former executive at Nch'Kay Development Corp. Mr. Di Blasio has noted recent government policies and court decisions are transferring significant wealth to Indigenous groups – money that needs to be managed for future generations. "We will take our rightful seat at the table to ensure our values are adhered to and our culture is preserved, while delivering on economic independence as full-fledged partners and owners"[38]. Thinking is also developing on how investment funds with a concessional window might be constructed.

In addition to these specific financing entities, there are three provincial Indigenous loan guarantee programs.

Alberta Indigenous Opportunities Corporation (AIOC) is a well-capitalized program that does a combination of direct lending and loan guarantees. It offers up to **$1 billion in loan guarantees in order to** help reduce the cost of capital for Indigenous groups. Originally set up to focus on energy investments (Indigenous inclusion in oil and gas), its mandate has expanded to include other investments in the economy outside of energy, making it easier to raise capital to invest in natural resources, agriculture, telecommunications, and transportation sectors. Typically, its loan guarantees have a $20 million minimum and $250 million maximum.

Saskatchewan Indigenous Investment Finance Corporation (SIIFC) provides loan guarantees that are strategically aligned with the five economic areas the province is focused on: 1. Value added agriculture (e.g., looking for an Indigenous partner for a proposed canola crushing deal, bio-diesel, etc.); 2. Energy sector (oil and gas, natural resources, forestry); 3. Green energy; 4. Manufacturing (currently not much manufacturing in Saskatchewan and looking to change that); 5. Indigenous involvement in the economy (with priority given to identified strategic economic ventures). Its loan guarantees typically have $5 million minimum.

[38] Sean Silcoff, "Indigenous private equity firm Longhouse Capital aims to help First Nations take control of their economic future," The Globe and Mail, June 11, 2023, accessed June 30, 2023, https://www.theglobeandmail.com/business/article-indigenous-private-equity-longhouse-capital/.

Ontario has an Indigenous loan guarantee program, introduced in 2009. The $1 billion program provides for Indigenous participation in electricity infrastructure projects, including renewable energy infrastructure in Ontario (e.g., wind, solar and hydroelectric generation projects) and transmission projects. A provincial guarantee is provided for a loan to an Indigenous entity to finance a portion of its equity investment (typically about 75 per cent) in an eligible project. The program is available to entities that are wholly owned by Indigenous communities. The Ontario Financing Authority (OFA) administers the program.

However, it is notable that other provinces with significant Indigenous populations do not have a loan guarantee program, specifically Manitoba, British Columbia, and Quebec. For instance, members of the First Nations Major Projects Coalition have secured terms for three significant projects worth a combined $14.5 billion, all necessitating equity financing within the next 18 to 24 months. Notably, none of these projects are located in provinces with programs supporting First Nations' equity ownership[39].

3.2 Conventional Financial Institutions

COMMERCIAL BANKS

Consultations indicated there is limited and uneven access to financing for the Indigenous economy from Canadian commercial banks. While most Canadian banks appear to have established some internal capacity for Indigenous lending, experience to date has been mixed – access to credit has reportedly been good in some cases, such as in northern Quebec, but disappointing in other cases, with surprisingly little competition among the banks in an effort to grow their Indigenous financing business. When bank credit is available to Indigenous borrowers, there may be only one or a few financial institutions operating in a given region or market segment, often with a small number of individuals responsible for the lending within the institution. Much of the available bank credit appears to be based on guarantees from specific trusted First Nations leadership or other Indigenous groups; the inability to take security on reserve is recognized as a specific barrier to greater commercial bank financing. Indigenous banking is often only seen in business development roles with little actual lending responsibility. The same lending criteria and risk management standards apply to this business as all other lines of business within the banks.

FEDERAL CROWN FINANCIAL INSTITUTIONS

Similarly, the consultations pointed to uneven access to Indigenous financing from federal Crown financial institutions. Crown financial institutions appear in principle to have developed some program and institutional capacity to undertake Indigenous financial business.

BDC states it has supported Indigenous entrepreneurs for over 25 years, offering financing and advice that is tailored to their unique business opportunities and challenges. In addition to its support as anchor investor in the Indigenous Growth Fund, BDC reported that it served 982 Indigenous entrepreneurs in 2022, which was 103 per cent of target (no separate Indigenous

[39] First Nations Major Projects Coalition,
Major Projects", accessed on October 10, 2023, https://fnmpc.ca/projects/.

business volumes are reported)[40]. In keeping with BDC's mandate to support small business, maximum loan amounts are relatively small.

CMHC is building relationships with Indigenous partners and helping to close housing gaps through the delivery of various housing programs. In 2022, CMHC supported over 11,045 units for Indigenous and Northern communities, allocating $225 million for repairs, with $5 million committed by year-end. An additional $200 million is being allocated to maintain 7,000 housing units for Indigenous Peoples in various regions. However, the provided funding falls significantly short of demand and doesn't alleviate on-reserve housing shortages. As highlighted by the Ontario Non-Profit Housing Association (ONPHA), Ontario's Indigenous population is younger than the general population, with an average age of 33.6 (compared to 40.7 for Ontario) and a growing population that increased by 54% between 2006 and 2016. This youth demographic suggests a prolonged demand for housing due to future Indigenous family formations. [41]

Notably, the Rapid Housing Initiative (RHI) received considerable interest from Indigenous governing bodies and organizations, and as a result 41% of all units created under RHI will be for First Nations, Inuit, or Métis People[42]. Other CMHC programs include the On-Reserve Non-Profit Housing Program that assists Indigenous communities in the development, renovation, and administration of affordable rental housing on reserve lands, and the Section 95 Rental Housing Program that supports the construction, renovation, and operation of affordable rental housing on-reserve for low-income individuals and families and provides subsidies to eligible non-profit organizations or First Nations to help reduce rental costs and ensure affordable housing options. CMHC also has an Innovation Fund that provides financial support to Indigenous organizations, governments, and housing providers to develop and implement innovative approaches to Indigenous housing challenges, and a National Housing Co-Investment Fund that provides financial support for affordable housing projects across Canada, including projects focused on Indigenous housing, by offering low-cost loans, contributions, and other financial tools to facilitate the development of new housing, renovation of existing properties, and provision of supportive housing services.

CIB has established two business targets for Indigenous investment. It aims to invest $1 billion in partnership with and benefitting Indigenous Peoples. This includes both the amount of CIB investments in projects that directly serve Indigenous communities, and a share of the CIB investment amount proportionate to the Indigenous equity participation when it invests alongside an Indigenous community in an infrastructure project. It reported results of $65 million in 2021-22. CIB also has a cumulative business target of 60 Indigenous Communities with Infrastructure Gaps being addressed. Four Indigenous communities were served in 2022[43].

EDC reports its "inclusive trade" approach started in 2018 with a strategy for women-owned and led businesses and progressively expanded to a team of three dedicated national leads—for women-, Indigenous- and Black-owned and led businesses. Its strategy continues to evolve to enable more Canadian businesses owned and led by members of equity-seeking groups to realize their international growth potential. Its $200 million Inclusive Trade Investments Program (ITIP)

[40] Business Development Bank of Canada, "BDC Annual Report 2022," accessed June 30, 2023, https://www.bdc.ca/globalassets/digizuite/37759-bdc-annual-report-2022.pdf.
[41] ONPHA. "Urban and Rural Indigenous Housing Plan for Ontario." Ontario Aboriginal Housing, August 27, 2020. https://www.ontarioaboriginalhousing.ca/wp-content/uploads/2020/08/ONPHAs-Urban-and-Rural-Indigneous-Housing-Plan-for.pdf.
[42] Ibid., p.32.
[43] Canada Infrastructure Bank, "Annual Report 2021-2022," accessed June 30, 2023, https://cdn.cib-bic.ca/files/documents/reports/en/Annual-Report-2021-2022.pdf, p.23.

seeks to address challenges and create more opportunities for diverse-owned and led businesses by addressing one of their main barriers to growth—equitable access to capital. 2022 investments included participation in the Raven Indigenous Impact Fund II, which will invest in North American Indigenous led/owned companies. Indigenous business investment volumes under ITIP are reported at $40 million in 2022[44].

Farm Credit Canada (FCC) indicates its takes diversity issues into account in its programs, including for Indigenous agricultural operators. It has established a team of lending professionals focused on Indigenous customers and is seeking certification under a program offered by CCAB. No Indigenous business results appear to be reported[45]. However, FCC is actively working on its Indigenous lending program to enhance Indigenous participation in agriculture. They have gathered Indigenous declaration information from 30,496 customers, with 665 declaring as Indigenous by March 2023.46 This commitment underscores FCC's dedication to promoting diversity and inclusion in the agriculture sector. Nonetheless, the aim to include Indigenous people in a program dominated by non-Indigenous people can perpetuate inequalities by making diversity a consideration, rather than a necessary condition for equity.

Consulted stakeholders, however, said they had seen very little actual Indigenous business done by Crown FIs in many cases. One stakeholder said they were aware of only one Indigenous loan by FCC. BDC was generally seen as an Indigenous financing market participant but having a low profile among Indigenous businesses while imposing maximum loan limits that often do not meet the needs. EDC has played an occasional role in helping Indigenous financial institutions to mobilize trade-related financing and investment and in addressing certain domestic bonding needs for Indigenous contractors. CIB is desiring to take an active role in building an Indigenous infrastructure lending portfolio, with a $1 billion target, but it is still a relatively new institution with small lending volumes so far. CMHC was not mentioned in the consultations.

There is no Crown FI mandated to undertake industrial development or domestic resource development, which means Indigenous and non-Indigenous borrowers alike must generally rely on commercial banks. If Crown FIs are to play a meaningful role in financing Indigenous investment in major projects, at a minimum they must obtain free prior and informed consent for their involvement. Indigenous businesses should be supported in procurement participation, and of course the projects need to take fully into account and mitigate related social and environmental impacts.

A detailed assessment on the adequacy of existing Indigenous financing sources is provided in Annex C.

3.3 Size of Indigenous Financing Gaps

How large are the financing gaps for the Indigenous economy? There is no comprehensive detailed data set available or a survey of unmet market demand, so proxies will be used to estimate the market gap.

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[44] Export Development Canada, "2022 Annual Report," accessed June 30, 2023, https://www.edc.ca/en/about-us/corporate/corporate-reports/2022-annual-report.html, p. 26.
[45] Farm Credit Canada, "Annual Report 2021-2022: Building a Resilient Tomorrow," accessed June 30, 2023, https://www.fcc-fac.ca/fcc/about-fcc/reports/ar-ra-2021-22-financials-e.pdf.
46 Farm Credit Canada - Financement agricole Canada, FCC. "Social - Indigenous Communities and Peoples." Farm Credit Canada, n.d. https://www.fcc-fac.ca/en/about-fcc/esg/social.html.

Business finance gap: Past research indicated that First Nations and Inuit-owned businesses accessed 11 times less market-based capital than most comparative Canadian firms. They were able to access less than one-tenth the market-based capital that is available to comparative Canadian firms. NACCA reports that its IFI network has provided $3 billion in financing to businesses owned by First Nations, Métis, and Inuit people. When these data points are combined, it suggests an Indigenous business finance gap of approximately $30 billion.

Project finance gap: FNMPC members are developing a portfolio of major resource and infrastructure projects across Canada, each with an actual or potential First Nations equity investment component. There are reportedly ten-plus projects now in the portfolio, with a combined total capital cost exceeding $40 billion.

Case Study #6: Advancing Economic Reconciliation through a National Indigenous Loan Guarantee Program

The First Nations Major Projects Coalition (FNMPC), representing over 140 member Nations, advocated for a National Indigenous Loan Guarantee Program during a multi-sector delegation in Ottawa. The program's main objective is to address the challenge of Indigenous Nations accessing capital and ensuring their free, prior, and informed consent is respected. It aims to bridge the investment gap in Canada's transition economy, where major energy projects are often built on Indigenous lands.

Successful Indigenous loan guarantee programs already exist in provinces like Ontario, Saskatchewan, and Alberta. For instance, in September 2022, the Alberta Indigenous Opportunities Corporation (AIOC) facilitated Indigenous ownership of Enbridge pipelines valued at $1.12 billion through a loan guarantee.

However, such programs are not available outside these provinces. FNMPC emphasizes the need for a National Indigenous Loan Guarantee Program, especially as it finalizes significant projects worth $14.5 billion that require equity financing in the next 18 to 24 months in provinces without a program that supports First Nations in their pursuit of equity ownership.

FNMPC argues that establishing a National Indigenous Loan Guarantee program is vital to address historical barriers and promote economic reconciliation through equitable Indigenous participation in energy projects. This initiative unlocks new economic opportunities, benefiting Indigenous communities, the Canadian economy, and future generations. Collaboration and unified support from Indigenous Nations and the private sector are crucial to fostering sustainable economic growth while upholding the rights and aspirations of Indigenous peoples.

Source: FNMPC[47]

Looking forward, FNMPC believes the potential Indigenous project market is huge. There could be 470+ projects, with $520-550 billion in project value, often in industries with solid financials based on regulated prices or take-and-pay contracts.

[47] First Nations Major Projects Coalition (FNMPC), "Advance Major Projects with Full Indigenous Participation to Grow Canada's Economy," FNMPC, accessed July 18, 2023, https://fnmpc.ca/advance-major-projects-with-full-indigenous-participation-to-grow-canadas-economy/.

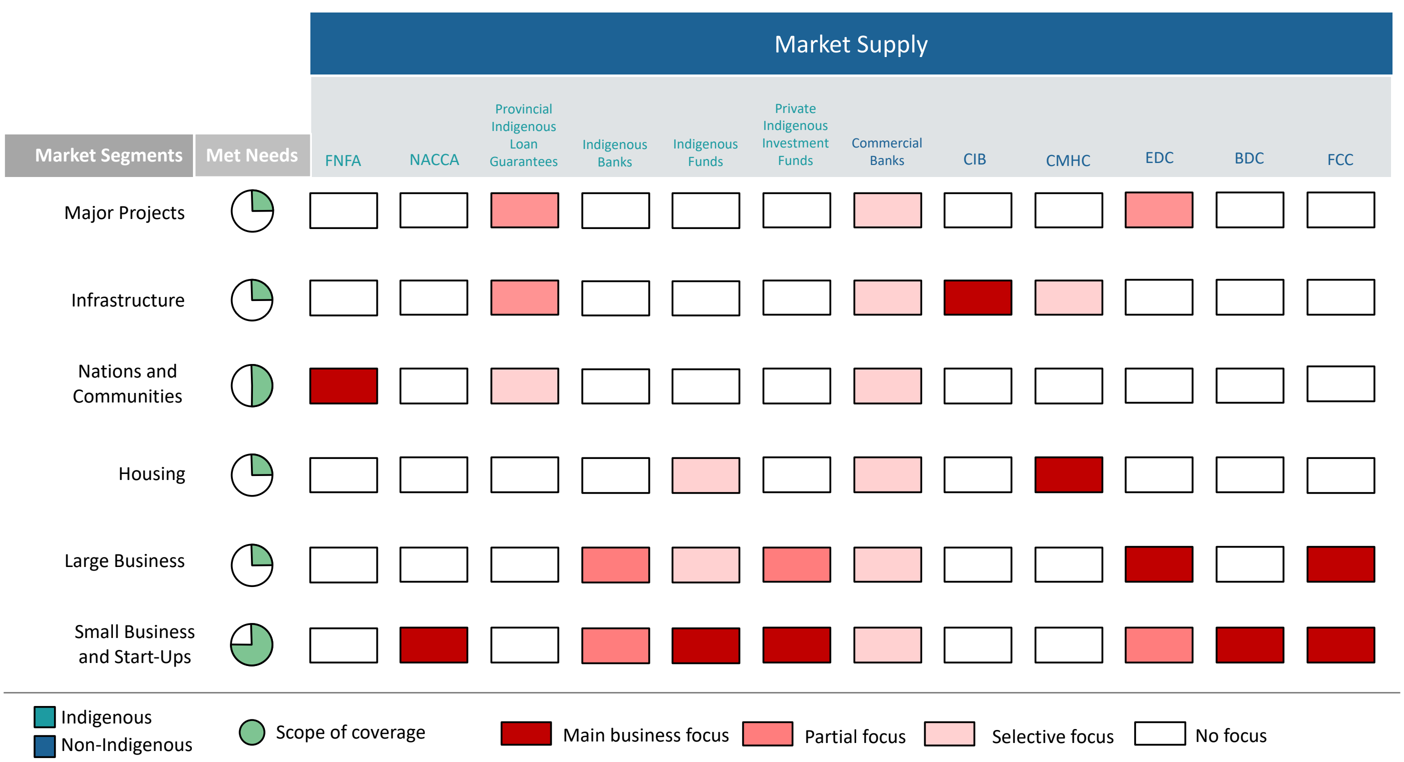
FNMPC suggests Indigenous investment in these projects could range from 10 per cent of project value to 50 per cent or even more. Demand for Indigenous investment in large projects could be $10–50 billion. First Nations generally do not have their own financial resources for such equity investment, so most of this amount will need to be financed.

Nations and Communities finance gap: The FNFA has a strong business model for mobilizing financing for First Nations. It has 142 members and assets and liabilities of $2.2 billion in 2022, based on nine debenture issues. However, this leaves hundreds of First Nations that are not FNFA members and do not have affordable access to financing for their budgets, which cover their own operations, local infrastructure, community development, and support for local businesses. The precise estimate of the financing gap for First Nations and Inuit communities can vary significantly depending on factors such as the scope of needs, geographic location, and specific projects. However, it is not uncommon for these estimates to be in the tens of billions or even hundreds of billions of dollars when considering the comprehensive infrastructure, housing, healthcare, education, and economic development needs of Indigenous communities in Canada. These figures are intended to convey the substantial scale of the unmet financing needs faced by Indigenous populations.

Housing finance gap: The market for Indigenous housing financing is fragmented. To attempt to meet the demand for housing, there is a patchwork of government programs, market-based financing initiatives, and growing intervention from CMHC. The overall size of the market gap for Indigenous housing financing is recognized to be billions of dollars.

Figure 2 below depicts the indigenous market segments and the available financing from both indigenous and non-indigenous sources, illustrating there are market gaps in coverage for all segments.

FIGURE 2: Financing Gaps / Unmet Needs for Indigenous Finance



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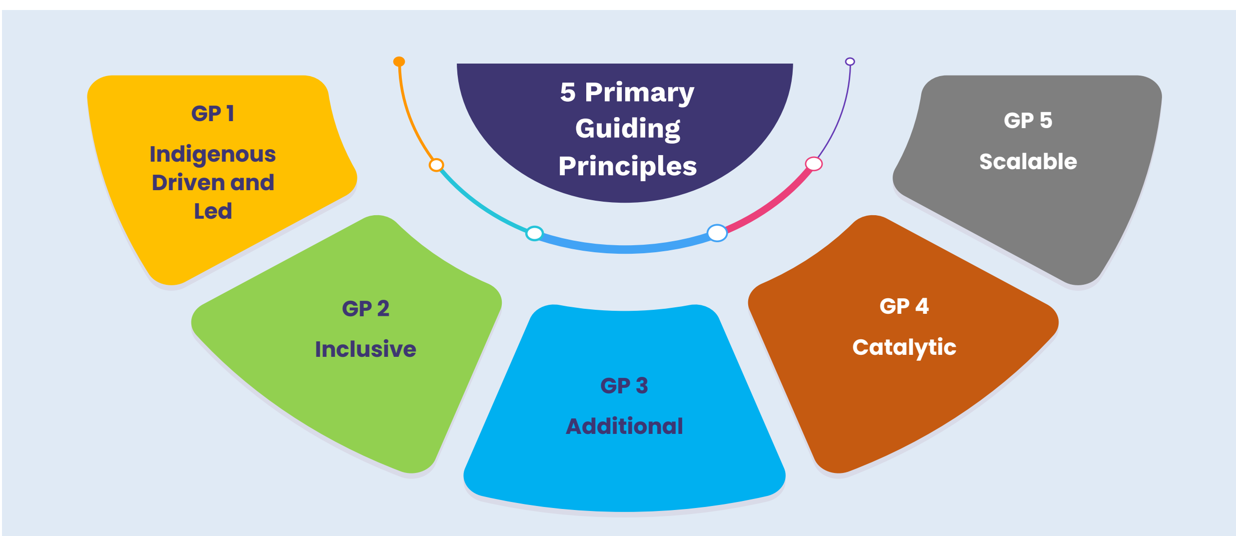
4. Guiding Principles for Addressing Unmet Indigenous Financing Needs

Indigenous communities face unique challenges and opportunities in mobilizing finance, including inequalities, limited access to capital, and cultural considerations. For example, Indigenous communities are currently limited to borrowing based on their own source revenue streams, rather than allowing monetization of fiscal transfers or borrowing against projected earnings from the project to be developed with the borrowed money.

Applying principles of finance tailored to Indigenous values and interests helps address these specific needs and supports economic empowerment within Indigenous communities. These principles provide guidance for responsible resource allocation, sustainable development, and culturally appropriate financial planning to mobilize financing as effectively and as broadly as possible. By incorporating Indigenous perspectives, values, and aspirations, the principles outlined below promote self-determination, community development, and the creation of economic opportunities that align with cultural preservation and long-term well-being. The current institutional arrangements provide important elements of a foundation for Indigenous financing, but they are also a patchwork. An ecosystem of Indigenous financial institutions is being built and First Nations and Indigenous businesses appear able to access financing in some important areas, but there are also likely to be coverage gaps and limits as to the scale of available financing. Stakeholders consulted were generally disappointed in their ability to access financing from commercial banks and Crown financial institutions. The development of a full framework of Indigenous financing is thus a work in progress.

While there are a number of potential options for addressing these unmet financing needs, solutions need to be assessed against a number of important criteria. These guiding principles reflect a common view of stakeholders in how to address the financing gaps:

FIGURE 3: Guiding Principles for Analyzing Options



GUIDING PRINCIPLE 1: ENSURE THE SOLUTIONS ARE INDIGENOUS LED AND INDIGENOUS DRIVEN.

At the core of enhancing the availability of Indigenous finance is Indigenous leadership and their pivotal role in decision-making processes. This central leadership role is consistent with both Articles 5 and 23 of UNDRIP. The first principle is therefore core to the development of Indigenous finance. The ultimate goal should be full Indigenous leadership and management of Indigenous financing.

This also means a mandate to focus exclusively on providing service to Indigenous businesses and organizations. It is not sufficient to add an Indigenous program, dimension, or condition to an existing institution as a bolt-on. Existing federal institutions have tried to do this but have not delivered on their stated Indigenous goals. The institution's core values and goals should be Indigenous values and goals.

Indigenous expertise in finance will also be further developed, as both lenders, equity investors and partnership developers, which can then be applied to Indigenous finance. Capacity building is a foundational element in economic development.

GUIDING PRINCIPLE 2: MEET THE FINANCING NEEDS OF ALL THREE HERITAGE GROUPS - FIRST NATIONS, INUIT, AND MÉTIS

The selected arrangement should be broad, aimed at addressing the needs of First Nations, Inuit, and Métis, across all regions of the full Indigenous economy. Solutions must be inclusive and eligibility criteria must focus on the needs of all Indigenous peoples whether on or off reserve.

GUIDING PRINCIPLE 3: WORK WITH EXISTING FINANCIAL INSTITUTIONS

The concept of additionality to ensure that the solution works with the existing (insufficient) supply of finance is a critical feature. The solution should seek to "crowd-in" and not "crowd-out" sources of finance. For example, the Indigenous Financial Institutions are already successful operating in selective SME spaces but may need additional capital to on-lend. Stimulating demand and catalyzing the supply of Indigenous finance should be treated as the top priority in the institutional arrangement selected. Indigenous finance should not have to constantly compete for attention and action against other institutional priorities. Other financial institutions should be engaged as risk-sharing partners in order to grow the overall Indigenous finance market, seeking to mobilize the maximum amount of Indigenous financing possible over time.

GUIDING PRINCIPLE 4: CATALYZE PRIVATE SECTOR FINANCE

Private financing and not-for-profit financing should be attracted to participate in risk-sharing partnerships, such as by using partial guarantees and partnerships, thereby expanding that total amount of available Indigenous financing. Strategies to mobilize private commercial and impact capital should be central to the approach, including social impact investing and capital from both domestic and international sources. Government guarantees can help expand the pool of available capital.

GUIDING PRINCIPLE 5: PROMOTE SCALING AND REPLICABILITY

Addressing the real needs of Indigenous communities should be a guiding principle, with a focus on elevating their status from what can be likened to a "developing nation" to one that enjoys the benefits and opportunities of a fully developed nation. This approach recognizes that many Indigenous communities face socio-economic challenges akin to those found in developing nations, and therefore, targeted policies and financial support are essential to bridge this gap.

The aim should be to establish an approach that can be expanded in Canada and to other jurisdictions. Beyond meeting the existing needs of Indigenous Peoples, Nations and communities in Canada, the approach ideally should have the potential to be scalable, which means it has the capacity to be progressively expanded. Moreover, the approach could become a model for Indigenous finance that can replicated in other jurisdictions.

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5. Options to Address the Financing Gaps

5.1 Potential Options

A number of possible options for Indigenous finance can be identified:

1. DO NOTHING

The first option is to maintain the status quo, by doing nothing differently. This option would not mobilize any additional Indigenous financing except through organic growth.

There are examples of projects that have been successfully funded under the existing set-up, such as the Clearwater Seafoods and Mi'kmaq First Nations communities and other businesses that sought financing from non-traditional sources. For example, an indigenous company, when faced with difficulties in securing loans from Canadian banks, resorted to seeking financing from a bank in Australia with success. This situation underscores the formidable hurdles and time-intensive endeavors involved in mobilizing the capital required for Indigenous initiatives. However, it is crucial to acknowledge that these successes have come after facing substantial challenges to tap into Canadian-based solutions to mobilize the necessary capital. While these successes are commendable, it is equally important to acknowledge that the status quo option would perpetuate existing financing gaps, leaving them unaddressed. This approach is not an appealing one because it effectively communicates that maintaining the status quo and sustaining an uneven playing field between the Indigenous and non-Indigenous economies in Canada is an acceptable policy outcome.

2. INCREASE GOVERNMENT BUDGETS

A second option is to provide more budgetary support from the federal government (and potentially other governments) for Indigenous investment and economic activity. This option would involve an effort to make Indigenous investment and economic activity a higher priority within the federal budget and other budgets, ideally supported by research and evidence to influence the level of incremental budgetary support being sought.

Increased investment support from government budgets means the allocation of the budgetary funds would ultimately be determined and managed by the public service, with approval from Ministers as required. In other words, this option would be more of the same approach that has been used for decades to address Indigenous financing needs. Higher budgetary levels for Indigenous finance would also need to be re-confirmed annually in the budget process. Indigenous leaders could press for more regular and detailed consultations on the desirable level of funding and its allocation, but the funding and allocation decision rests with government.

3. ESTABLISH A SIGNIFICANT FEDERAL INDIGENOUS INVESTMENT FUND

A third option is to establish a significant federal Indigenous investment fund, like the federal innovation and growth funds that have recently been created. Such a large Indigenous investment fund would make multi-year federal commitments to provide financing for investment in Indigenous projects or communities. The terms of that financing would need to be negotiated for each transaction, i.e., an equity investment, a concessional or commercial loan, a grant, or some combination.

As noted earlier, a modest Indigenous Growth Fund, managed by NACCA, has already been created and, while important, falls significantly short of the demand for financing. A large Indigenous investment fund targeting the major market segments beyond Indigenous small businesses, would be guided by the amount of budgetary funding allocated to it and by the expected net budgetary impact of the investments financed. For example, providing concessional lending terms would use up the fund's budgetary allocation faster than more commercial lending terms, and faster than equity investment in projects. Therefore, to maximize the value of the fund to Indigenous investments, the fund could be focused on commercially viable projects with the potential for a material financial return over time.

If such an option were to be pursued, the allocation of the investment fund would be managed by a federal entity; it could be managed by the public service, by a government special purpose vehicle, or by a Crown corporation. There should be scope for meaningful engagement with Indigenous leaders on the governance and administration of an investment fund, although the fund manager would take the investment decisions. The governance role of Indigenous leaders in such an entity would be a critical success factor. The investors would need to be open to innovative approaches to governance if this is to be an Indigenous institution.

4. INCREASE ENGAGEMENT AND COMMITMENTS FROM CURRENT FINANCING SOURCES

A fourth option is to engage with current sources of Indigenous financing in order to increase the level and scope of such financing. This would be a voluntary process, although existing sources of Indigenous finance like commercial banks and federal financial Crown corporations may be interested in the concept. Tangible annual and medium-term commitments, with targets and reporting, could be sought from individual private and Crown financial institutions.

The goal of greater engagement could be pursued through bilateral discussions, and/or through creation of a forum on mobilizing Indigenous finance. Indigenous leaders could play a central role in advancing the engagement process. An array of financial tools to mobilize capital could be considered, including targeted tax benefits and regulations.

5. CREATE A JOINT DEDICATED ENTITY AMONG CURRENT FINANCING SOURCES

A fifth option is to create one or more joint dedicated entities for Indigenous finance, drawing on the various available financing sources. For example, commercial banks could agree to create and invest collectively in a private Indigenous bank that build on their various lending and investment activities in one focused institution, with dedicated governance, management, and staff. Other private investors like pension funds may be interested in investing in such an entity as well.

Federal Crown FIs (BDC, CIB, EDC, FCC) could consider a number of different approaches. They could invest in a private Indigenous bank; they could be risk-sharing partners with a private Indigenous bank in their various areas of mandate and expertise; or they could co-invest in a separate Crown Indigenous finance entity. However, there appears to be a significant gap in the current Crown coverage when it comes to addressing the financing needs of Indigenous projects and Indigenous Nations. While several Crown financial institutions have mandates that include financing for Indigenous entrepreneurs and projects, they have faced difficulties in effectively financing Indigenous projects within their overall business models. As a result, there remains a notable gap in their ability to meet the specific needs of Indigenous communities and initiatives.

Moreover, it is important to highlight that, although these federal Crown FI entities have mandates to invest in Indigenous projects and entrepreneurs, none of them possess a specific mandate to finance Indigenous Nations directly. This omission is critical, as Indigenous Nations often have unique financial requirements related to self-governance, infrastructure development, economic diversification, and community well-being that are distinct from those of individual entrepreneurs or projects. Addressing this gap is essential for promoting Indigenous self-determination, fostering economic development within Indigenous Nations, and ensuring that the financial needs of Indigenous communities are met comprehensively and effectively.

6. PROVIDE FEDERAL INDIGENOUS LOAN GUARANTEES

A sixth option would be to establish a federal program for loan guarantees for major Indigenous projects and other initiatives. There has been considerable public and media interest recently in federal Indigenous loan guarantees, particularly for Indigenous investment in major projects. This option has been advanced by the First Nations Major Projects Coalition with the support of major business organizations such as the Business Council of Canada.

A loan guarantee essentially transfers risk from private lenders to the government. A loan guarantee approach is most effective when the offer of a government guarantee helps to mobilize additional net financing from the private sector. A guarantee is not a free good; it entails the federal government accepting some portion of the risk of a given project or transaction. A guarantee fee that reflects the transaction's risks and any possible financial losses would normally be charged, and a fiscal backstop such as a budgetary loss provision may be required. An Indigenous loan guarantee program would be administered by federal officials according to the criteria and conditions established by the federal government, ideally in consolation with Indigenous and other stakeholders.

A federal loan guarantee program could be a useful means to unlock financing for Indigenous ownership and engagement in major projects and such a program would expand potential government loan guarantee coverage across the country[48]. However, even if a federally administered loan guarantee program is developed for a specific purpose like Indigenous investment in major projects, many other Indigenous financing needs would still remain to be addressed. A federal loan guarantee program could thus represent an important step forward, but it would not provide a full solution to the financing needs of the Indigenous economy.

7. ESTABLISH AN INDIGENOUS DEVELOPMENT BANK

A seventh option is to create a new dedicated Indigenous Development Bank (IDB), as called for in the NIES. The IDB would in principle be able to provide and mobilize financing for broad Indigenous economic development, including resource and infrastructure projects, business start-ups, operation and expansion, development of supply chains, and financing for Indigenous Nations and communities. Like other development banks, it could provide an array of financing options including loans, loan guarantees, equity investments, and project bonding.

The federal government could be the foundational investor, although there is scope for innovation in many aspects of the IDB. For example, other governments and entities, including Indigenous representation, could be invited to join as investors.

A key success factor will be for Indigenous leaders to play a central role in the IDB's governance, ensuring that it is an Indigenous institution.

48Allan Clarke, "Nation Building: Unlocking Indigenous Potential to Power Canada's Net Zero Economy - RBC Thought Leadership.", accessed October 23, 2023, https://thoughtleadership.rbc.com/nation-building-unlocking-indigenous-potential-to-power-canadas-net-zero-economy/.

5.2Assessing the Options

The various options can now be assessed against the principles outlined earlier. The options need not be mutually exclusive; it is possible to implement more than one approach simultaneously to mobilizing Indigenous finance, as is commonly done in international development finance and is now being done for clean finance domestically. The following chart provides an overview assessment of each option vs. the principles and assesses whether the financing option aligns with each of the principles: Yes / No / Partially.

FIGURE 4: Assessment of Options

Principles	Options: 1. Do nothing	2. Increase government budgets	3. Establish a federal Indigenous investment fund	4. Increase engagement and commitments from current financing sources	5. Create a joint dedicated entity among current financing sources	6. Provide federal Indigenous Loan Guarantees	7. Establish an Indigenous Development Bank
1. Is Indigenous Led and Indigenous Driven	No	No	Partially	No	Partially	No	Yes
2. Meets the financing needs of all three heritage groups: First Nations, Inuit, and Métis	No	No	Partially	Partially	Yes	Yes	Yes
3. Works with existing financial institutions to stimulate demand and catalyze supply	No	No	Partially	Yes	Yes	Yes	Yes
4. Leverages private sector finance	No	No	Partially	Partially	Partially	Yes	Yes
5. Promotes scaling and replicability	No	No	Partially	No	No	Partially	Yes

OVERALL ASSESSMENT OF THE OPTIONS

Option 7, the creation of an Indigenous Development Bank, would be the most effective and comprehensive means of meeting the full spectrum of financing needs of the Indigenous economy by addressing multiple market gaps. There would be the potential to create a truly Indigenous institution over time, with the federal government as a foundational investor and supporter. The specific features of an IDB are examined in greater detail in the next chapter.

An Indigenous Development Bank has the potential to foster empowerment and self-determination, rectify injustices, craft customized financial solutions, enhance financial capacity, foster partnerships, and collaboration, and facilitate economic growth and prosperity—transforming an Indigenous economy from a developing state to a developed one. Establishing an Indigenous Development Bank would require collaboration between Indigenous communities, governments, financial institutions, and other stakeholders. It should be designed with meaningful Indigenous participation and incorporate culturally sensitive governance structures to ensure the bank's operations align with Indigenous values, principles, and aspirations.

As an interim step, a federal loan guarantee program could help unlock financing for Indigenous ownership and engagement in major resource and infrastructure projects and would expand potential government loan guarantee coverage across the full country. It could thus be an important step forward; however, a federal loan guarantee program would not be a full solution to the financing needs of Indigenous businesses and communities.

Another option to consider is a significant federal Indigenous investment fund, similar to the federal innovation and growth funds that have recently been created. Such an Indigenous investment fund would be additional to the creation of an IDB or a loan guarantee program. It would be empowered and guided by the amount of budgetary funding allocated to it and by its investment parameters.

The other options do not meet most of the proposed operating principles and are not recommended for further consideration.

6. Indigenous Development Bank Features

A conceptual framework can be used to guide the development of the IDB. Such a framework assesses the foundations of financial health and performance of public development banks (PDB). A healthy PDB finds a financially sustainable way to effectively balance the needs of its stakeholders—shareholders (governments), clients, private sector intermediaries and taxpayers—while accomplishing its ultimate goal of meeting its public policy objective[49], in this case providing access to finance for Canada's underserved Indigenous economy and helping unlock economic opportunities that otherwise are not in reach, shifting to a more robust and sustainable future.

In most developed and developing countries, governments set up such banks or facilities to meet a public policy objective that it feels is being inadequately served by the private financial system. Areas of developing banking might include infrastructure, housing, SMEs, industrial development, export finance, overseas development finance, agriculture, and municipal finance. Not all countries have all such facilities as not all countries face market gaps in these areas. In Canada, there are 5 main Crown financial institutions: BDC (small business), EDC (export/trade), FCC (agriculture), CIB (infrastructure), and CMHC (housing), whose mandates are to promote these sectors and complement, not crowd out, existing market players[50]. Typically, public mechanisms are designed to provide a measured response to perceived "market gaps", and positioned in a way that does not distort market characteristics, impede existing mechanisms, or operate in a part of the market which currently works well or in which existing players would otherwise be willing to operate.

As noted earlier, Indigenous economic and social development is analogous to the development challenges faced in a middle-income developing country. The market gaps for Indigenous finance in Canada are more akin to those seen in the emerging and developing countries, around access to financing for housing, basic infrastructure, etc. and therefore the Indigenous Development Bank should be modelled off the successful development banks in these markets. While the existing Crown financial institutions can play a useful role in their areas of jurisdiction, the analysis indicates that an institution is needed that understands Indigenous history, culture, and today's reality, and which is tailored to and solely focused on addressing the full array of Indigenous financial needs.

With this framework in mind, the following features for the IDB can be considered.

6.1 Strategic Framework

OWNERSHIP

To launch the IDB, the federal government could be its foundational investor. It could provide governing legislation, the Bank's start-up financing and initial capitalization, and ongoing debt financing – the same as it does for other federal financial Crown corporations.

However, the creation of IDB also offers an opportunity to do things differently. There are many different and innovative models for national and multilateral development banks and IDB could consider other possible shareholders, investors, and guarantors. These might include:

- Indigenous Nations, communities, or institutions
- Provincial governments

[49] Diana Smallridge and Fernando De Olloqui, "Health Diagnostic Tool for Public Development Banks," accessed June 30, 2023, https://publications.iadb.org/en/health-diagnostic-tool-public-development-banks, p. 3.
[50] Not all Crown FIs have this need for complementarity stated within their legislative frameworks.

- The private sector – banks, asset managers, pension funds
- Not-for-profits, such as foundations
- Other development institutions.

The only limits on the possible ownership and support structure of the IDB are the creativity and open-mindedness of its stakeholders and possible partners.

LEGISLATIVE FRAMEWORK

A critical component to ensure sound footing of the IDB is the legislative framework. An innovative approach would be to consider establishing the IDB as a complementary institution to the existing First Nations institutions created under the *First Nations Fiscal Management Act,* or equivalent legislative body. These institutions have been very successful — efficient, nimble and innovative — because they are Indigenous-led and run and governed largely independently of the federal government. If positioned under the *First Nations Fiscal Management Act,* the IDB's legislation would still need to address all of the framework issues discussed below.

A more conventional approach would define and govern the IDB as a federal Crown corporation under its own Act, such as the "Indigenous Development Bank Act" or otherwise established as a company. This presents challenges as it would not be deemed to be an Indigenous entity, but rather a government entity. On the other hand, by structuring it as a corporation, the development bank can have a distinct legal identity and the ability to operate independently while still being subject to regulatory oversight and reporting requirements. This allows it to mobilize capital from various sources, including government funding, private investors, and international organizations, to fulfill its development objectives.

Regardless of the approach adopted, proper autonomy to be able to take responsibility for operations would be critical to its success, distancing difficult operational decisions from political interventions that could deflect the IDB from its mission. Such autonomy is also a basic principle of sound governance for government-owned/or government-backed banks.

The governing legislation needs to strike a delicate balance between enabling IDB to execute its mandate in an autonomous way and enshrining a prescriptive and detailed legislation, which then may need to be regularly revisited and revised. Typically, entities such as IDB will have associated regulations to guide the operations which can be more easily updated to reflect a changing environment. Beyond the legislation and regulations, the policy framework, which is under the purview of the Board of Directors, should capture the remaining issues.

Under an enabling legislation, it is essential to identify the key legislative components, whether the IDB is established as an entity under the First Nations Fiscal Management Act or as a Crown Financial Institution governed by an Act. This would typically cover IDB's mandate, powers, and purposes and governance arrangements. It should also discuss financial issues such as whether or not there is a target for financial sustainability and what the maximum exposure ceiling should be (as a % of capital to avoid having to revisit a value). As a government-backed entity, IDB should be operated under an own set of internal rules and limits in line with the institution's mandate and business objectives. Finally, the governing legislation should speak in very clear terms about the nature of the government's financial backing for the IDB.

PURPOSE

Creation of any national development bank starts with defining its core purpose, which is usually related to market failure and filling a specific market gap. For the IDB, the central purpose is to fill the pronounced gap for access to Indigenous finance. Specifically, the IDB will provide financing for Indigenous economic development of many types in many segments, building sustainable productive capacity and infrastructure in multiple sectors and regions of the Indigenous economy. The IDB should also be inclusive and actively seek ways to provide financing to all members of the Indigenous community, including ensuring women and other marginalized groups within the Indigenous economy are equally served.

More specifically, this means providing and mobilizing financing for Indigenous resource development projects, supporting individual Indigenous businesses, and building supply chain capacity. It also means building fiscal management and delivery capacity by lending to Indigenous Nations and communities within a Nation.

GOVERNANCE

Suggestions on governance were revealed during discussions with interested parties. These may benefit from further consensus as the IDB is developed. Like other financial Crowns and development banks, an arms-length board should guide the strategic direction and management of IDB. A key success factor will be a governance model that incorporates Indigenous leadership and strategic guidance while reflecting the interests of all investors. In order to make IDB an Indigenous institution, Indigenous voices should guide the Bank. If the IDB is founded as a Crown corporation, Indigenous representatives should form a meaningful portion (e.g., at least half) of the voting weight of the IDB Board from the outset.

In examples of multiple shareholders within a development bank (for example in some Multilateral Development Banks, such as the Asian Development Bank), different required voting weights (and super majorities in some cases) are required for various decisions of the Board. This is one way to ensure that the majority of stakeholder interests are reflected in major decisions of the Board. These decisions include:

- approval of the annual corporate plan and evergreen business strategy
- capitalization and overall financial management
- selection and oversight of IDB management
- lending and investment transactions of a material size.

CAPITALIZATION AND START-UP FINANCING

Ideally, the IDB should have a capitalized banking business model, aiming for a positive financial return. This means it should be built on paid-in capital from shareholders to provide a solid foundation. Mixed shareholding could be explored with some capital from the government that could be diluted over time.

To cover initial operating costs during a start-up period (3-5 years), capital could be allocated to the Bank (and invested), or annual budgetary funding could be provided by the federal government, as it has done for other start-up development banks.

As a reference point, Basel 3 established commercial bank capital requirements based on the risk profile of the bank. As an (old) rule of thumb, the minimum level of commercial bank capital in most jurisdictions is approximately 8 per cent of bank assets. In Canada, OSFI has established guidelines where capital requirements are typically 12-14 per cent of bank assets, based on tiers of capital to address a series of risks. To simplify this when applied to IDB, an initial IDB capital ratio of 10 per cent of expected assets (or a loan-to-capital gearing ratio of 10:1) could be considered.

As noted, there is significant unmet demand for Indigenous financing, and thus a huge financing gap for IDB to address. The unmet demand for Indigenous businesses alone is $30 billion. Major projects have the potential for $10–50 billion in Indigenous equity, which will need to be financed. There are also sizable financing gaps for Indigenous housing, infrastructure, and other demands.

Taken together, this suggests IDB might have an initial paid-in capital base of $2-3 billion able to lend up to $30 billion across all market segments and, with the base growing progressively to $5 billion and then toward $10 billion as IDB business expands.

As a useful reference point from a mature Crown financial institution, EDC had share capital of $8.49 billion at the end of 2022 (which was actually reduced from $12.3 billion at the end of 2021). EDC also had retained earnings of $3.72 billion, giving it a total capital base of $12.21 billion at the end of 2022.

FIGURE 5: Crown FI Capital Assets

	Share Capital	Retained Earnings	Total Capital	Loans Receivable
BDC (Mar 2022)	$11.5 bn	$6.4 bn	$18.0 bn	$34.2 bn
CMHC (Dec 2022)	$0.025 bn	$12.8 bn	$12.8 bn	$269.7 bn*
EDC (Dec 2022)	$8.5 bn**	$3.7 bn	$12.2 bn	$54.2 bn
FCC (Mar 2023)	$0.5 bn	$8.1 bn	$8.6 bn	$47.7 bn
CIB (March 2022)***	$3.9 bn****	$0.7 bn*****	N/A	$1.5 bn

** at cost plus market value*
*** after dividend payment of $7.3bn made end-2021*
**** No paid-in capital base (yet). CIB has so far been allocated $15 billion as fiscal expense against its $35 billion statutory appropriation.*
***** Total Government Appropriations (Investments)*
****** Total Government Appropriations (Operations)*

The IDB would need to access debt capital to on-lend in support of indigenous transactions and would benefit from the federal government's sovereign backing of its liabilities. Like most federal financial Crowns, IDB could access debt financing from the federal Consolidated Revenue Fund at the government's cost of funds, which are the lowest interest rates available. Conversely, it could also seek to use its own borrowing capacity, recognizing that its cost of borrowing may be marginally higher than the federal cost of funds (even with a AAA rating and a federal guarantee).

In 2015, Finance Canada consolidated and assumed direct control of providing C$ debt financing to (most) federal financial Crown Corporations, because the government can mobilize such debt financing at the lowest possible interest rate. However, since that time, there has been impressive global growth in thematic bond markets that are focused on positive social and environmental impacts such as supporting disadvantaged groups or addressing climate change. Thematic bonds can also offer attractive financial terms to borrowers.

So, IDB may provide an exceptional opportunity to access global debt markets by attracting impact investors or institutional investors keen on ESG/impact results. There could be considerable advantages if an Indigenous-led development bank is able to tap into these thematic bond markets directly, rather than relying entirely on debt financing from the federal government.

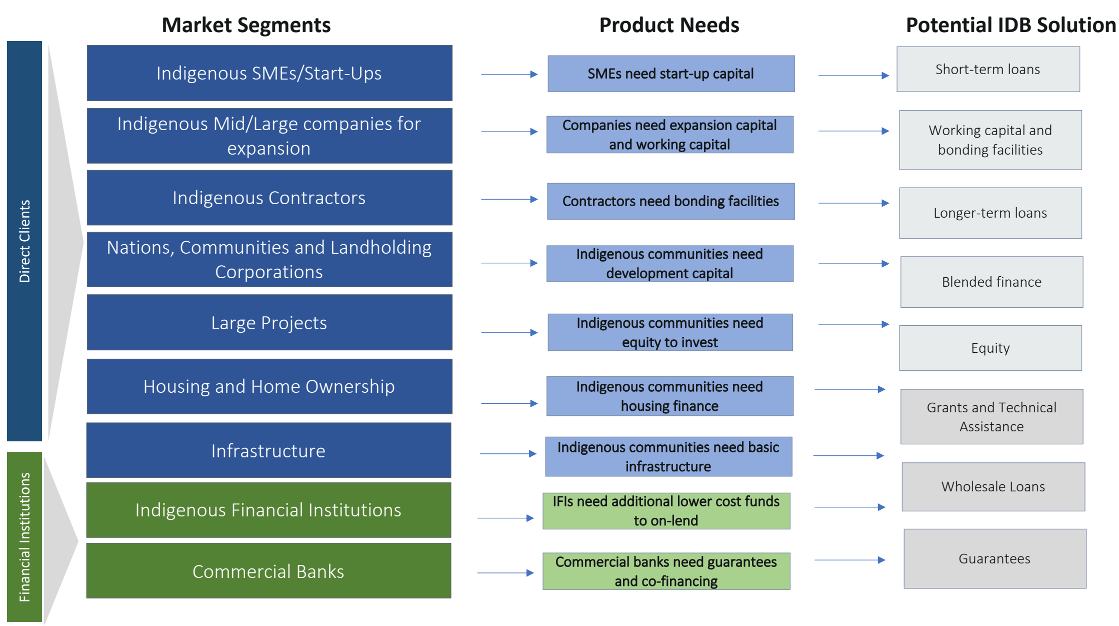
While initially debt raising issuances might be in the domestic capital market attracting both private and public investors (such as public pension plans), there is wide scope to raise money in the international markets, particularly sold as social bonds, or indigenous bonds, for institutional investors seeking both financial return and impact, with the possibility of even better rates for IDB than plain vanilla Government of Canada bonds.

6.2 Product Offering

The IDB is intended to be complementary to existing sources of finance and to fill market gaps. This means providing a navigation tool/service for Indigenous clients to find the solutions needed. IDB product offering can include those financial products that catalyze supply of finance from the private sector and other sources but also stimulate demand[51]. Catalyzing supply could mean providing guarantees, equity, and co-financing to bring along other capital into Indigenous financing opportunities. Stimulating demand could mean helping structure transactions upstream to be bankable.

Given the market segments from which demand might be derived, the product offering can be developed based on target clientele:

FIGURE 6: Market Segments



In the figure above, the market segments are defined as direct clients and financial institutions, through - and with - which the Indigenous Development Bank can work to address the financing gaps. For example, as a wholesale lender, IDB could finance NACCA's members by tapping the capital markets at lower rates than currently available. For larger SMEs with financing needs beyond the IFI's lending limits, IDB could lend direct, ensuring it is not crowding out these institutions.

Different market segments have different financing needs. The IDB's solutions to address these product needs are then defined. The table below summarizes the IDB product offerings towards the main market segments.

[51] Smallridge and de Olloqui, "Health Diagnostic Tool for Public Development Banks", p.7.

TABLE 1: IDB product offerings

Products / Markets	Direct Loans	Wholesale Loans	Guarantees	Equity	Bonding & Working Capital	Grants	Technical Assistance
SMEs		X		X	X		X
Med/large corporates	X		X	X	X	X	
Housing	X	X	X	X		X	
Nations/Govts	X		X	X		X	X
Infrastructure	X		X	X	X	X	X
Large Projects	X		X	X	X	X	X
Financial Institutions	X	X	X				

6.3Pricing and Approach to Credit Risk

Development banks typically offer debt financing to clients at a rate commensurate with the risk of the credit being extended, and adequate to cover its cost of funds plus operating costs. Because they can access funding at lower rates and on-lend, this can provide a more reliable and affordable funding base.

The IDB could pursue this conventional route, but it also has the potential to innovate in order to overcome the barriers that are inherent in access to finance for the Indigenous economy. Innovative approaches to use of collateral, such as biodiversity assets and climate assets, exploring “credit-for-nature” swaps[52], using nature-based assets, can be explored. This is increasingly a recognized field as defined by the Task Force of Nature-Based Financial Disclosures (TFND)[53]. TFND recognizes that Indigenous-led enterprises are often pioneers in sustainable business models. It is partnering with the International Union for Conservation of Nature (IUCN) to engage with Indigenous Peoples and Local Communities (IPLCs) in recognition that these communities steward much of the world’s natural resources, play a vital role in safeguarding nature and are also highly dependent on nature for their livelihoods[54].

Carbon credit financing structures could be useful as a basis for accessing additional financing sources. These are opportunities for value add, showing leadership in promoting Indigenous trade and global partnerships. Indigenous lands can present significant opportunities for large scale carbon credit programs attracting foreign sources of capital.

[52] “Debt-for-nature” swaps have been deployed in a number of developing country settings to help manage sovereign debt. "Swapping Debt for Climate or Nature Pledges Can Help Fund Resilience," International Monetary Fund, December 14, 2022, accessed June 30, 2023, https://www.imf.org/en/Blogs/Articles/2022/12/14/swapping-debt-for-climate-or-nature-pledges-can-help-fund-resilience.

[53] "Taskforce on Nature-related Financial Disclosures (TNFD)," Taskforce on Nature-related Financial Disclosures, accessed June 30, 2023, https://tnfd.global.

[54] "TNFD Consultation Announcement," Taskforce on Nature-related Financial Disclosures, accessed June 30, 2023, https://tnfd.global/news/consultation-announcement/.

Exploring innovative approaches is crucial, and it is imperative to recognize and respect the role of Indigenous institutions, as they are key drivers in enhancing the well-being of Indigenous communities. Drawing on successful models from other contexts, such as Islamic Finance which has innovated to meet Shariah principles to avoid charging interest on financing. For example, rather than charging a pre-determined interest rate on its loans, IDB could share in the financial risk and return of its loans and investments. This would mean a focus on the overall expected financial return of the transactions financed by the Bank, not the pre-determined interest rate. Similarly, Multilateral Development Banks (MDBs) globally are active in results-based loans, which is a version of asset-based financing considering outcomes related to policy changes etc., providing better interest rates/rebates for certain results agreed *ex ante*.

In addition, and like many other development banks in emerging markets, IDB could potentially make use of concessional or blended finance at below-market interest rates, which would be funded with a budgetary subsidy being provided by government. There might also be scope to introduce risk-sharing and repayment accountability among its clients, as done in some innovative development institutions. These options are for the shareholder(s) and board to consider.

A grant-based facility could also be envisaged for capacity building of micro and small sized enterprises and project development costs/pre-feasibility for major projects and infrastructure to prepare a bankable deal. This is a classic product offering of a national development bank in emerging markets that is mandated to facilitate economic development. By incorporating elements from these successful models, the IDB can shape its operations to best serve Indigenous communities and foster economic reconciliation.

6.4Business and Operating Model

To provide a comprehensive suite of products and services on a commercially and financially-sound basis, IDB must have a functional structure similar to most other national development banks. The capabilities that are most important to a successful launch are the areas requiring the greatest amount of specialized technical expertise that is core to IDB's mission, such as business development, credit appraisal, and risk management.

An important consideration for IDB is determining what level of structure and expertise is necessary to begin operations, and how much of the required resources can be provided directly by IDB, and how much can be outsourced to other organizations. Such outsourcing could be on a temporary transitional basis until IDB has developed the necessary capacity and expertise internally and a critical mass of business.

The front office includes market-facing personnel who interact directly with clients and prospective clients and partners, involved in business development. The front office also includes personnel who provide key support for the market-facing staff, such as marketing, communications, research, and the delivery of training.

Business development is the sales function within the organization responsible for identifying business opportunities, funneling them into the credit appraisal process, and establishing and building relationships with intermediaries and business partners. Business development could also include management of electronic or people-driven intake systems that receive cold call inquiries and channel them to business development. Finally, this area could also include management of the distribution channels for IDB's products and services. This refers to developing and maintaining relationships with financial institutions, and other intermediaries.

The front office could include the area responsible for delivering training tools (e.g., webinars, manuals) to ensure that IDB's customers and intermediaries fully understand and can competently use and explain IDB's products and services.

Marketing comprises a "go to market" strategy that brings all of IDB's resources to bear to ensure it achieves its key objectives. It begins by segmenting the market into the target user groups of IDB's products and services.

Partnerships will also be the mandate of the front office, focusing on IFIs, FNMPC, FNFA, commercial banks, Crown financial institutions, federal, provincial, and territorial governments, etc. A partnership strategy will be a critical early activity.

The middle office function includes the core activities related to risk, portfolio and financial management, compliance, product development, claims and recoveries, and legal services. Risk, portfolio and financial management oversees credit, financial, systems, portfolio, and other enterprise risks. The importance of establishing, managing and monitoring a proper risk management system is critical to IDB's success.

The compliance function develops methodologies for evaluating IDB's success in adequately managing the above risks and process, identifies any weaknesses that could threaten IDB's financial stability, and recommends changes to ameliorate those weaknesses.

Product development must work closely with the front office in helping IDB develop and enhance its products. Product ideas and improvements can come from internal stakeholders, customers and intermediaries. It is important to have resources dedicated to this process and personnel with good project management skills to see a product through from inception, implementation, and evaluation.

6.5Financial and Risk Management

IDB would be capitalized and borrow initially from the Government of Canada to on-lend. However, early establishment of its Treasury operations to borrow in its own name, with a guarantee from GOC, would be advantageous. IDB's bonds could be issued under an ESG+I label[55], with a possibility of discounted pricing.

As the intention is that IDB be financially sustainable in the longer run, it will require a robust risk management framework. A robust risk management framework would require IDB to:

- Define the various elements of risk.
- Set limits for each category of risk.
- Set criteria for risk acceptance – both for each risk category, each pool of risk and each client.
- Set risk pricing formula/parameters.
- Define risk measurement, monitoring and management principles.
- Define the system and responsibilities for the management of risk.

[55] https://www.icd.ca/ICD/media/documents/Feature-Article-ESG-plus-the-I-EN.pdf

As a Crown financial institution or established through existing legislation, it would not be supervised by OSFI and its risk appetite may be larger than the existing commercial financial sector, with a target return sub-commercial rates. To ensure close alignment with GOC and stakeholder ambitions, it would be advisable to build a regular review of IBC's activities into its mandate.

6.6 Success Metrics

The performance metrics used by the Bank will help to determine its strategic priorities, operating results, and its ultimate impact on Indigenous economic development. Strong financial performance, where the metrics and standards are well known, is critical to IDB's sustained business success and provides a vital backbone to operations.

However, financial performance is only one possible measure of IDB performance and success. The Bank ideally will apply development-related metrics and set standards and goals, which might become its own ESG or social purpose standards, related to Indigenous socio-economic development and impacts in Indigenous Nations and communities. One factor to measure development impact would be job creation, as it is crucial for economic growth, poverty alleviation, and social stability and leads to skills development, improved human capital, and long-term sustainability. A recent study by the British Columbia Assembly of First Nations (BCAFN) notes that employment plays a crucial role in the economic development of Indigenous people in Canada, with approximately 87 percent of First Nations' household income being generated through employment[56]. However, challenges persist, as Indigenous people tend to have lower incomes than their non-Indigenous counterparts. The economic disparities are evident in the median income figures, with off-reserve First Nations individuals earning around 86 percent of the provincial median income and on-reserve individuals at 66 percent[57]. Monitoring employment metrics is critical for assessing the progress of Indigenous economic development and promoting equitable opportunities for prosperity.

Any number of Indigenous socio-economic development metrics, as determined by its governing body and/or founding leaders, could be applied to approval of specific transactions to be supported by the Bank, and for its overall portfolio of activities over time. Similarly, IDB should expect to develop and apply metrics on environmental, biodiversity and climate and GHG impacts, which are integral to Indigenous values.

[56] British Columbia Assembly of First Nations, *Economic Participation and Contributions of First Nations in BC* (July, 2023), p. 3.
[57] Ibid.

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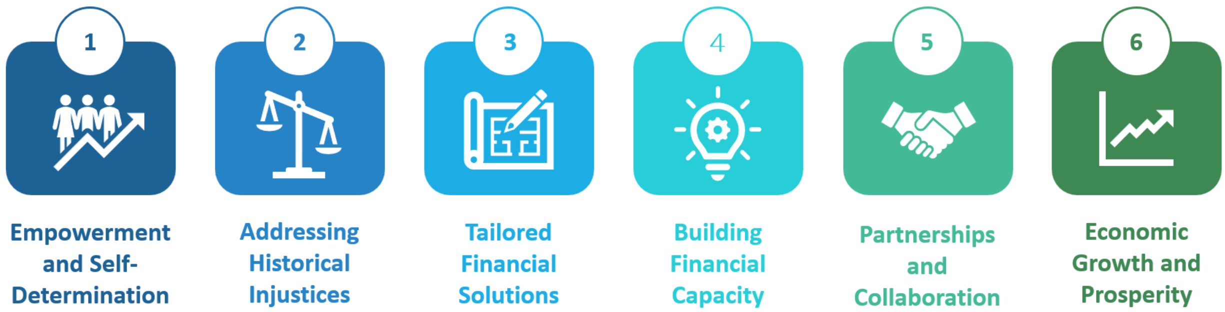
7. The Case for an Indigenous Development

The case for an Indigenous Development Bank in Canada stems from the recognition of the unique socio-economic challenges faced by Indigenous communities and the need for targeted financial solutions. Here are some key arguments supporting the establishment of an Indigenous Development Bank:

FIGURE 7: Key Arguments



Empowerment and Self-Determination: An Indigenous Development Bank can empower Indigenous communities by providing them with the tools and resources necessary to drive their economic development. It would enable Indigenous peoples to have greater control over their financial affairs and foster self-determination. It would allow Indigenous Nations to participate in development projects happening on their traditional territories, continuing to be stewards of their land and influencing development with Indigenous values. By offering tailored financial products and services, the bank can support Indigenous entrepreneurship, job creation, and community initiatives.

Addressing Historical Injustices: The establishment of an Indigenous Development Bank can be seen as a step towards addressing historical injustices faced by Indigenous peoples in Canada. It can serve as a means to rectify past discriminatory practices and promote economic reconciliation. By providing access to finance and investment opportunities, the bank can help bridge the socio-economic gaps between Indigenous and non-Indigenous communities.

Tailored Financial Solutions: An Indigenous Development Bank would have a deep understanding of the unique needs, values, and cultural contexts of Indigenous communities. It can develop and offer financial products and services specifically designed to meet those needs, such as flexible loan structures that account for communal land ownership models or culturally appropriate business support services. This tailored approach can enhance the effectiveness and relevance of financial services for Indigenous individuals and businesses.

Building Financial Capacity: The bank can play a pivotal role in building financial capacity within Indigenous communities. It can provide financial literacy programs, training, and technical assistance to individuals and businesses, fostering economic resilience and empowerment. By promoting financial education and skills development, the bank can improve financial management practices, enhance creditworthiness, and support long-term financial stability.

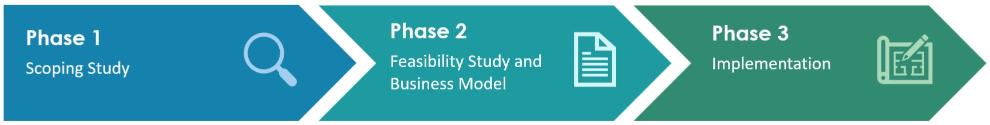
Partnerships and Collaboration: An Indigenous Development Bank can facilitate partnerships and collaboration between Indigenous communities, governments, and other stakeholders. It can act as a catalyst for investment, bringing together financial institutions, private sector entities, and community organizations to support sustainable economic development projects. These partnerships can leverage resources, expertise, and networks to unlock new opportunities and overcome barriers to Indigenous economic growth.

Economic Growth and Prosperity: A thriving Indigenous economy benefits not only Indigenous communities but also the broader Canadian society. An Indigenous Development Bank can stimulate economic growth, create jobs, and contribute to the overall prosperity of the country. By supporting Indigenous entrepreneurship and business development, the bank can foster economic diversification, reduce dependency on government funding, and promote a more inclusive and equitable economy.

8. Next Steps

The conclusion of this **Phase 1: Scoping Study** determined the best option for addressing Indigenous access to finance is the establishment of an Indigenous Development Bank (IDB). The next steps in the process would be to conduct a Feasibility Study and develop a Business Model to guide the implementation of the IDB.

FIGURE 8: Phases



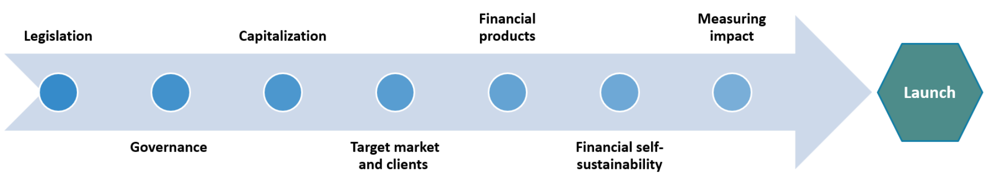
Phase 2: Feasibility Study and Business Model

A Feasibility Study will explore all the existing mechanisms to look at how the market is currently being served and what the market gap is. This will then inform the Business Model, which will include extensive consultations with Indigenous nations, entrepreneurs, and companies to gather detailed data on funding gaps and opportunities, deriving potential business volumes for the IDB. The Feasibility Study will also explore a capitalization plan, realistic options for a funding pool, including innovative options for revenue streams; define service offerings to maximize impact; and provide practical and achievable short to medium term goals and actions required to set up the IDB.

Phase 3: Implementation

The critical areas for the establishment of a new Development Bank are well-defined and can be applied to the development and implementation of an IDB in Canada (see graph below). Once the Scoping Study and Feasibility Study have been conducted, along with the development of a comprehensive Business Model, the IDB will be well informed and can take the necessary steps required to set up and launch.

FIGURE 9: Phase Approach



A phased approach allows for strong consultation and strategically facilitates incremental decision-making to ensure broad stakeholder engagement and support.

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9.2Annex B: List of Stakeholders Interviewed

Below is a list of stakeholders consulted to develop this report.

TABLE 2: List of Stakeholders

#	Name	Institution
1	Dawn Madahbee Leach	Waubetek Business Development Corporation
2	Jason Annahatak	Makivvik Corporation
3	David Tordjman	Nunavik Investment Corporation
4	Andre Le Dressay	Fiscal Realities
5	Jacob Beaton	Tea Creek Training and Employment
6	Geneviève Charland-Arcand	Nunavik Landholding Corporations Association (NLHCA)
7	Mike McIntyre	Membertou First Nation
8	Chris Sicotte	National Aboriginal Trust Officers Association (NATOA)
9	Heather Bishop	Cold Lake First Nations (CLFN) Economic Development Department
10	Kyle Martin	Cold Lake First Nations (CLFN) Economic Development Department
11	Marie-Pier Carbonneau	CIBC
12	Luc Allard	CIBC
13	Jean Vincent	Native Commercial Credit Corporation / *National Aboriginal Capital Corporations Association*
14	Michael Rice	Caisse Populaire Kahnawake
15	Niilo Edwards	First Nations Major Project Coalition (FNMPC)
16	Matthew Foss	Canadian Council for Aboriginal Business (CCAB)

9.3 Annex C: Assessment on the Adequacy of Existing Indigenous Financing Resources

For internal reference only – not for general publication.

While there are a number of established and emerging Indigenous financing arrangements provided by both Indigenous and conventional institutions and programs, these arrangements fall well short of meeting the full financing needs of the Indigenous economy. There are important shortcomings in terms of the scale of available financing, the coverage, and the commitment of various financial institutions to addressing Indigenous financing needs.

1. SCALE

Few if any of the existing institutions and programs are able to provide the scale of financing required to address existing Indigenous financing gaps. Existing Indigenous institutions of various types have begun to form a foundation for Indigenous finance, but the institutions are relatively small, tend to be under-capitalized, and are therefore unable to provide financing on a significant or adequate scale.

The First Nation Finance Authority has made a good start and has developed an effective business model for securing short and long-term financing for its borrowing First Nation members. However, the scale of its operations is still small, with assets of $2.2 billion in 2022.

The existing Indigenous Financing Institutions and their association, NACCA, play an important role in mobilizing developmental lending and business financing, and support services to First Nations, Métis, and Inuit businesses. IFIs have so far provided loans totaling $3.3 billion to Indigenous businesses, although individual loans are generally limited to $500k-750K, and even smaller amounts for some IFIs. In general, these constrained amounts of available financing reflect the limited capital and operating platform of many IFIs. As a result, IFIs may be able to finance start-ups and an initial operating period but are generally limited in their ability to support the growth needs and ambitions of Indigenous businesses.

Similarly, the small number of Indigenous commercial banks and credit unions provide important deposit-taking and lending financial services to their Indigenous clients and members, but they too are relatively limited in terms of their capitalization and thus their scale of operations.

The three provincial Indigenous loan guarantee programs are also constrained. Two of them have a modest $1 billion operating limit, which sounds like a good initial communication line for governments, but which may be inadequate for meeting the ongoing needs of affected Indigenous businesses in the province in question.

For federal Crown financial institutions, the scale of actual Indigenous financing operations is very limited overall. BDC generally limits the amount of financing available for individual Indigenous businesses, and its new Indigenous Growth Fund is at a very modest scale of only $150 million. EDC is creating business development programs for Indigenous exporters, but its scale of financing is still minimal; EDC invested a mere $40 million in Indigenous export businesses in 2022. CIB, still a new institution, has established a target to invest $1 billion to the benefit of Indigenous peoples (identical to two provincial loan guarantee programs) and invested $65 million in 2021-22 in Indigenous infrastructure projects. CMHC is engaged in mobilizing financing and other support for Indigenous housing, although the actual scale of its Indigenous operations does not appear to be aligned with market needs.

2. COVERAGE

There are important gaps in the coverage provided by existing institutions and programs. The most significant financing gap is for Indigenous business finance, of all types. Indigenous small businesses have challenges accessing even basic business financing such as lines of credit and working capital, let alone accessing capital for growth. Mid-sized and larger private or community-owned businesses often drive the Indigenous economy, but they too have only limited access to market and government-backed financial support, resulting in a "missing middle" of growing Indigenous firms that could help build the overall Indigenous economy. Resource development is a key growth opportunity for the Indigenous economy. There are numerous opportunities that could include Indigenous communities as investors, but at present there is no identifiable dedicated source of financing for Indigenous investment in resource development or related infrastructure projects. The overall result is a significant financing gap for Indigenous businesses.

As discussed in previous sections, there are other obvious regional and specific gaps in coverage for nations, communities, families and individuals. While Alberta, Saskatchewan, and Ontario have modest loan guarantee programs, three other provinces with significant Indigenous populations do not, specifically Manitoba, British Columbia, and Quebec. Moreover, there is currently no federal Indigenous loan guarantee program.

Housing is a specific area where financing coverage is incomplete and uneven. There is a patchwork of government funding programs for social housing, and there are a few market-oriented options for housing financing for Indigenous families as owners, but many evident financing gaps remain.

FNFA is a good program and has grown its coverage to over 140 members, but there are still many First Nations that are not yet FNFA members and therefore do not have ready access to its services. Similarly, IFIs also represent an important financing segment, but the current roster of 58 IFIs do not likely provide full coverage for businesses and other prospects in all regions and segments of the Indigenous economy.

3. COMMITMENT

The third and perhaps most important shortcoming is the commitment of various financial institutions to address Indigenous financing needs fully. There is no question that the existing Indigenous institutions are committed to addressing the financial needs of their community. Their limitations are related to the ability to meet the scale of financing required, and the breadth of market coverage relative to their mandates and capacities.

Most Canadian banks have announced an intention to provide Indigenous financing, but with only a few exceptions, commercial banks have a very low profile and apparent level of activity in the Indigenous economy, with surprising little evidence of regional competition. As noted earlier, cultural barriers to the provision of Indigenous financing do exist and ought to be acknowledged. A combination of institutional inexperience, ignorance, and bias can translate into the unwillingness of non-Indigenous institutions to provide broad and fair-minded treatment to Indigenous customers. Systematic bias and discrimination can manifest as a lack of culturally sensitive financial services, stricter lending criteria, or higher interest rates. There can also be fundamental financing barriers to commercial banks providing Indigenous financing, such as a lack of demonstrated Indigenous experience in the formal financial system, the absence of a financial track record and demonstrated capacity to regularly meet credit payment conditions, and thus the inability to meet traditional creditworthiness criteria.

Federal Crown financial institutions have stated their intention to serve the Indigenous economy, but so far, the level of actual business conducted lags far behind their policy statements. This raises questions about the degree of commitment of Crown financial institutions to serve the needs of the Indigenous economy, which risks being a cosmetic gesture to provide the minimum commitment requirements expected of them.

4. CONCLUSION

The analysis has identified numerous shortcomings in terms of the scale and coverage of available Indigenous financing, and shortcomings regarding the commitment of various financial institutions to addressing Indigenous financing needs. This prompts questions as to whether expanding the existing institutional arrangements would be the best way to address the needs and aspirations of Indigenous businesses and communities, or where a more dedicated and focused approach is required — specifically the creation of an Indigenous Development Bank, as recommended in the NIES.


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