



NACCA

Unleashing Our Economic Potential

National Aboriginal Capital Corporation Association

Policy Paper

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I. Background: government policy and reserve economies past and present

A. 50 years of federal government policy: a brief overview

Aboriginal economic development policy has had a long and unusually complex history, which was perhaps the result of having numerous labels and names in different time periods and by the sheer number of agencies and entities involved.

Precursors to policies explicitly called economic development generally focused on the creation of means of subsistence, rather than the creation of commercial value or products that could compete with those of non-Aboriginal economic actors. One such example was the promotion of agriculture, with the ultimate aim of food security for the community. Other, more traditional activities such as fishing or mining, were in general also viewed as a means of survival for Native peoples, but not for the purpose of commercial activity¹; the denial of licenses and other obstructions demonstrated this attitude.

However, efforts at the promotion of agriculture were generally discredited by the 1960s, and it was commonly agreed that a broader approach to Aboriginal development was required. The Hawthorn report of 1966 overturned the prevailing view that Aboriginal peoples who desired to be economically active in a commercial sense should be assimilated into Canadian society, which at the time was believed to be a desirable long-term objective for the fate Aboriginal peoples as a whole. Instead, the report circulated formative ideas of a long-term economic development program based on middle-range objectives focusing on increasing the well-being of Aboriginal individuals. The cornerstone of this approach would be on education and job training, with the ultimate aim of the acquisition of employable skills for salaried or wage labour.

The assumption of eventual assimilation continued to play a role in economic development policies, however. In the case of the Hawthorn report in particular, migration to urban areas was strongly advocated, with programs to support the transition to the mainstream labour market and participation in wage labour over traditional employment. The federal approach to Aboriginal economic development varied considerably in the successive decades, spreading into business development, with the advent of ministerial loan guarantees in 1951 and the beginnings of loan and business assistance programs in the early 1970s. Industrial development by sector was attempted starting in the 1980s; numerous education, training and human resource initiatives were developed over the decades, boosting enrolment rates at all levels of education; and Special Agricultural and Rural Development Agreements for rural and remote areas were implemented. All of this was in addition to extensive social

¹ Substantiated by the *Royal Commission Report on Aboriginal Peoples*, 1996. http://www.ainc-inac.gc.ca/ch/rcap/sg/sgmm_e.html .

programming by the Department of Indian and Northern Affairs, covering everything from social assistance to housing to health.

In later years, and especially the 1990s, policy became more coordinated and holistic, initially with the 1980 Native Economic Development Program, succeeded by the Canadian Aboriginal Economic Development Strategy, encompassing substantial business development initiatives in addition to 'Pathways,' a comprehensive training program. There were efforts at community development in the 1980s, devolving implementation of some programs to communities and engaging in community-based planning. Another attempt at coordination and cohesion occurred in 1999 with *Gathering Strength: Canada's Aboriginal Action Plan*, a response to the report of the Royal Commission on Aboriginal Peoples (RCAP) in 1996. Focusing explicitly on the partnership of all stakeholders in Aboriginal development, this plan promoted the idea of rewarding successful initiatives and devolving implementation of the program to Aboriginal groups as well as on delivering all the basic needs of Aboriginal communities.

However, despite all attempts at cohesion and at revamping the policy framework, in practice, Aboriginal economic development policy is fragmented and disjointed. Because of the sheer number of federal departments and diverse and disparate Aboriginal political and social groups involved in the process of implementation, there is no practical consensus on quantifiable objectives or how to reach them, and each program has its own *modus operandi*, including definitions, processes and reporting requirements.

Of even greater concern is a systematic inattention to economic principles and mechanisms. Aboriginal issues invariably tend to be seen through a social lens, and whereas social objectives are certainly desirable, the economic aspect of these programs can be ignored in the complexity of policy development. For example, the consideration of incentives is not only important and powerful in motivating people, but is also vital to achieving intended as opposed to unintended consequences. However noble an aim or objective is, if it fails to consider the impact on the incentives of the people it affects, it can be worse than useless – it can have hugely detrimental effects. Consider, for example, the case of Aboriginal-oriented educational and training programs. Their purpose is undoubtedly well-intentioned; but when no economic opportunities or incentives exist beyond, they contribute to social frustration as well as to educational attainment.

Fragmentation has undoubtedly reinforced this problem – without overall coordination and assessment, it is next to impossible to ensure that incentives spread over the various 'program areas,' for example, business development, education, and governance, are consistent. It has contributed to a situation in which, perhaps as a legacy of the Hawthorn report of 1966, policy is created in a silos, and tends to deal with immediate economic problems. Emphasis is on raising the income of Aboriginal individuals, responding to immediate demands for business capital, or sectoral development, or training in vocational skills, in a piecemeal way. The approach is, again, similar to that of social programs – programs targeted at individuals and problem

areas on an individual, uncoordinated basis. It was anticipated that individual economic ingredients such as business development loans and training programs would give Aboriginals the tools they needed to join the Canadian economy and that he/she would be eager to do so once these prerequisites were in place, disregarding their lack of opportunities.

For this reason, we can call this policy 'developmental,' because of its well-intentioned aim of economic growth by a method of incubating or 'developing' individual portions of an economy or individual traits and skill sets. This policy is best articulated by the 1996 RCAP report:

"... welfare for those out of the labour force, training for those who need to upgrade their skills, loans or grants for entrepreneurs wanting to start their own businesses, and relocation assistance for those moving to urban areas in search of jobs are often seen as necessary and sufficient policy interventions. Typically, the problem is defined as Aboriginal individuals not having access to opportunities for employment or business development in the larger Canadian society."

This has led to the development of some very impressive economic tools, such as a growing business sector and a better educated and trained labour force, but there continues to be a singular lack of an institutional or environmental framework for economies as a whole to flourish. For example, over 79 organisational entities have evolved under the Aboriginal Human Resources Development Agreements and its predecessors, creating partnerships between business and education and government that build the skills of local workforces. A nation-wide network of Aboriginal Capital Corporations has seen great success in high-risk lending and promoting the Aboriginal small business sector. Strong features do exist; but vibrant Aboriginal economies most often do not.

The government policy since 1960, outlined above, demonstrates a very positive evolution of the approach to Aboriginal economic development, and one which has created many features on which to build and grow. We have learned important lessons in the past: that we can change attitudes, both native and non-native alike, and identify the models for the successful development of First Nation, Inuit, and Metis communities. We have now reached the time for the next step in this evolution, enabled by the successes of the past, and are in the position to move forward even further.

B. The prevailing situation

Despite the positive output and evolution of many federal programs, the day-to-day operation of several of these programs has some unintended, and undesirable, consequences.

The great myriad of challenges confronting First Nations, Metis and Inuit people, and the plethora of programs and agencies attempting to address these challenges have led to an unfortunate situation of resource competition and perpetuated policy fragmentation, as discussed above. The policy environment of many communities can be characterized as "tin-cup syndrome"², in which the political competition over scarce government resources takes priority over economic competition or development that would lead to growth, job creation and innovation and productivity. This ailment also exists within the government bureaucracy, in which programs and departments compete for funding for Aboriginal programs, leading to the entrenched interests of federal bureaucracies becoming obstacles to genuine progress in this policy area. The development of such an operational culture has inhibited consistent, coordinated policy directives and vast changes in approach, and has encouraged the perpetuation of a fragmented approach to economic development.

Exacerbating this problem is the management of funding programs, which, for positive reasons of accountability and transparency, has developed into a sophisticated and precise matter of procedure. An unfortunate by-product of the 'science' of program management has been an emphasis on ensuring proof of deliverables and the timely dispensation of funds over the process of making visionary policy and profound change. Securing funding for one's own programs and efficiently disbursing these funds has usurped coordinated, big-picture, innovative thinking as the primary driver of Aboriginal policy-making.

These issues have not been helped by the absence of data with which to measure the impact of programs. Although program assessments and reviews are regularly undertaken, the ultimate effectiveness of policies in terms of the communities they are meant to assist is difficult to estimate, given the lack of objective information on Aboriginal economies. Reliable econometric models of these target economies could greatly inform the formulation of policies, by deepening the understanding of their composition, and monitoring the overall impact of approaches past and present.

These factors, coupled with the overall thrust of government policy in the previous section, suggest that not only does the content of policy need to be re-examined; its operational methodology should be fundamentally reconsidered. It is time for a radical shift in thinking, in order to separate economic development from the controlled environment of government policy and move it in a strategic direction

² Many previous attempts at tax reform have been marred by the 'inside-the-beltway' assumption that the wealth of the nation belongs to its government and as a result perpetuates "tin cup syndrome," a view put forward by the National Commission on Economic Growth and Tax Reform, 1996.

II. A new methodology for economic growth

A. Consolidation and coordination

Experience of the tin-cup syndrome has shown us that internal competition leads to stagnation and underdevelopment, an outcome benefiting the aggregate Aboriginal community far less than the resources dedicated to Aboriginal programs would indicate to be possible. What is needed is cooperation, to inject new thought and energy into economic development policy, and to maximize the return of programs to the Aboriginal community as a whole. There is much more to gain collectively than individually.

Ongoing dialogue among the leaders of the various institutions of the Métis, Inuit and First Nation people, to consolidate their respective strategies and approaches to economic development, if they are committed, will overcome the current stagnation and benefit all. Within this dialogue, participants must view economic issues through an economic lens, with conclusions and policy ultimately based on sound principles of economic theory and practice, which will lead us on a path towards growth and prosperity.

We need to develop a collective consciousness about the economic forces within our nations, and how to best develop these forces to form an economic framework that can deliver sustainable activity and growth. We must focus on building the fundamentals in Aboriginal economies, harnessing our own knowledge and the will of our communities to develop our own ways of developing an appropriate environment for entrepreneurship and small- and medium-sized business development, building a viable financial sector, and generating marketable goods and services that move efficiently through the marketplace. We need to stimulate and re-define communities' assets and resources, recognizing the value that already exists and working together to develop opportunities to build upon our successes and overcome our shortcomings. We need to develop programs which realistically account for incentives and motivate people towards the path of growth instead of stagnation.

To make cooperation fully effective, there must be a shift in the responsibility over future programs from government program administrators to the participants and potential benefactors of such programs. A basic management tenet states that, for a project to be successful, authority and responsibility cannot be separated. There must be an onus on local economic actors for improving investment climate and developing other features of a strong economy, so that the outcomes of projects are more directly related, positively and negatively, to community members and their actions.

A big-picture strategy needs to replace the current state of piecemeal efforts and programs, and Aboriginal leaders across the country are ready for the challenge.

B. Measuring economies

While there are several organizations who are knowledgeable about and successful in specific sectors within the Aboriginal economy, over the years, little attention has been given to the understanding of the make-up of this economy as a whole, and the identification of the various components necessary to produce greater economic and productive power. In order to measure the success of policies over time, and thus to better determine optimal policies for the Aboriginal economies, Aboriginal decision-makers must have access to reliable economic data and tools. The need for capacity internal to the Aboriginal economy for objective economic analysis could not be more pressing.

Objective data collection and analysis would give us a more accurate picture on the state of the Aboriginal economy, and to better understand what works and what doesn't work in terms of new initiatives. It would give Aboriginals themselves increased control over their own economic development, by making the economy better understood and, crucially, valued. Once value is identified and recognized, it is easier to build on it, in addition to instilling a sense of pride and self-worth on the part of those building this value.

Measuring Aboriginal economies and the results of specific policies would also provide a more honest and objective basis for public perception and opinion. Because of lopsided media coverage and limited exposure to the realities of life on reserves, the general public perspective has not always been either positive or based on the full truth. If information on transfer payments and government programs could be consolidated and made accessible, popular support or at least tolerance would create an easier environment for both government officials and Aboriginal leaders to work in. Moreover, if the potential benefits that would accrue to regional economies through the development of Aboriginal economies could be demonstrated, there would likely also be more consensus around the need for such programs and support.

C. Aboriginal ownership

A key to the success of any consolidated approach to Aboriginal economic development is Aboriginal ownership, both in the development and in the implementation of any such program. Economic policy initiatives must be developed through the looking glass of Aboriginal communities, their institutions and cultural milieu, and their implementation must fit within the perspectives of the communities, tribes and nations to inform national, broad-based policies.

In terms of implementation, one of the few lessons learned this past half-century is that Aboriginal-run institutions work. One needs to look no further than the Aboriginal Capital Corporations to understand this fact. An Aboriginal-driven and self-implemented program of economic development will have the same result.

These ideas are substantiated by the results of studies out of the renowned Harvard Project on American Indian Economic Development run by the Kennedy School of Government at Harvard University, and in particular by the work of Stephen Cornell and Joseph Kalt.³ This work flags some crucial elements of successful economic development, based on economic analysis of Native American reservations and their varying economic success and failure. It argues that, time and time again, *efforts that recognize the institutions of self-government, and, tribes that develop effective governing institutions⁴ of their own*, have the most economic success. The 'nation-building' approach Cornell and Kalt advocate is best articulated here:

“The solutions lie elsewhere: in the design and construction of nations that work. In comparing two approaches to reservation development, the study found that the "jobs and income" approach sees development as first and foremost an economic problem and consequently focuses attention on getting grants, finding a joint venture partner, or any other strategy that might produce usable capital. The "nation-building" approach, on the other hand, sees development as first and foremost a political problem. It focuses attention on laying a sound institutional foundation, on strategic thinking, and on informed action.

Most important, the "nation-building" approach produces different outcomes. Our research consistently finds that the "jobs and income" approach can occasionally lead to some quick business start-ups and perhaps some short-term successes, but it does not produce a sustainable future for the nation. A nation-building approach is no guarantee of economic success, but it vastly improves the chances that economic development will take root and be sustainable. It is far more likely to produce prosperity for the nation and its people. Along with sovereignty, it is the key to economic development.”⁵

In short, a holistic approach must be taken, and economic development must be 'owned' by institutions that can lay legitimate claim to represent their people.

This legitimacy is key. Without the comprehension and support of the whole Aboriginal population, economic reform or initiatives are useless. It is this population that is at the frontline of economic development: in day to day consumption and savings decisions, in longer-term employment, business and housing decisions, it is the mass population that determines the economic activity of an area. Only through conveying the importance of

³ See “Sovereignty and Nation-Building: the Development Challenge in Indian Country Today” by Stephen Cornell and Joseph P. Kalt, 2001, the Kennedy School of Government, Harvard University.

⁴ An effective governing institution is determined by these criteria: • Stable institutions and policies; • Fair and effective dispute resolution; • Separation of politics from business management; • A competent bureaucracy; and • A cultural “match.”

⁵ *Ibid* 3 p.8

economic growth, by ensuring understanding of current programs and initiatives, and showing the practical ways of achieving it, does change really occur. The incentive towards growth is much stronger when it is felt to be locally inspired and towards collective gain. Growth is organic; it cannot be imposed from above. This process of understanding growth can be led by tribal elders and Aboriginal leaders, but they are not the final target. The national institutions are sufficiently developed and positioned to have a crucial role in pushing forward a path towards growth, but it is the communities that must take the initiative and seize opportunities. Aboriginal ownership means ownership by an empowered populace.

D. Capital as the strategic factor

The importance of capital in the growth and development of economies is a fact stated time and again everywhere from the rhetoric of politicians to the papers of academics and World Bank officials. Capital is an 'enabler' – its presence and flow facilitates the creation of other market fundamentals, such as business development, employment, and investment. It also taps into the entrepreneurial spirit of a community, unleashing economic activity at the grassroots level, and drives growth in a way that is efficient and sustainable, flowing to the most promising and profitable projects.

An inadequate capital supply hence thwarts economic growth and development in more ways than one. Its most immediate effect of limiting business formation and expansion. The numerous government programs that seek to spur growth and development by establishing funds to address the shortfall in capital financing in an economy, and which encourage banks to engage in more capital provision, are testament to the importance of this economic feature in achieving the government's twin aims of employment and growth. The impact of insufficient capital on business formation and expansion can be separated into two distinct effects: the direct impact of declining employment and economic inactivity through the high turn-down rate on business loans, and a less easily quantifiable effect on the demand for capital as a whole.

Put another way, this latter consequence turns on the idea that supply of capital begets demand – capital that is present and available in an economy will be used; entrepreneurs will seize opportunities if they are present. Only when equity and debt financing are realistic possibilities will individuals begin to understand how they can put this capital to work. In the economic culture of more remote communities who have never witnessed an adequate supply of capital, the introduction of such tools and possibilities will spur ideas, innovation and entrepreneurship in unpredictable and exponential ways. Though largely unquantifiable, this effect can be far-reaching, altering the economic mindset of a community.

Another potentially damaging outcome of the restriction of credit is the practice of credit rationing, with all of its attendant distortions. With only a limited amount of capital to work with, demand for credit will exceed supply, allowing financial institutions to make an

excessive profit by charging higher interest rates to mitigate demand. This spurs adverse selection in the choice of loan recipients: whereas high interest rates will turn off legitimate, normal risk firms, a higher interest rate will attract high risk firms whose acceptance of this interest reflects their expectation to pay more to offset their higher probability of failure. At some point it will be difficult for lending institutions to continue to operate, with an unbalanced risk portfolio, exacerbating the problem of capital shortages.

A related concept is that of moral hazard. With higher interest charges, the incentives of business-owners and lenders may become skewed, leading to the perverse conclusions when it may cost less to default and/or declare bankruptcy than to continue with a difficult business and loan repayments. The risk class of the entrepreneur is ultimately altered by these credit constraints when the borrower has the capacity to effect the outcomes of the business receiving the loan, rendering it far riskier than originally assessed to be.

All of these factors are undoubtedly at work in reserve economies. The inaccessibility of capital, given the stringency of conditions for lending by mainstream banks and the shortage of capital within Aboriginal lending institutions such as the Aboriginal Capital Corporations and the Aboriginal Community Futures Development Corporations, has most definitely limited economic activity in the Aboriginal economy. The table below illustrates how drastic the shortfall of capital is for Aboriginal business – the Aboriginal section of the population is accessing a share of capital which is vastly disproportionate to its size, inhibiting its ability to grow and develop.

	Cdn Business	Aboriginal Business (hypothetical—proportional)	Aboriginal Business (actual)
Total <i>debt</i> financing	\$324 billion	\$4.1 billion	\$150 million
Total <i>equity</i> financing	\$380 billion	\$4.8 billion	\$80 million

Moreover, there is a burgeoning demand for capital access in the Aboriginal community. Businesses of all sizes from small and micro-operations, medium sized enterprises and other grand commercial undertakings, like joint ventures in the oil and gas industry, are growing and entering new phases of development and many require sophisticated financing. Bonding requirements are such that the existing sources of capital cannot meet the demand.

According to the Microeconomic Monitor July 1998, the number of self-employed Aboriginal people grew more than two and a half times faster than the national average between 1981 and 1996. Further, a conservative estimate of the annual capital

requirements for the business-financing sector of the Aboriginal economy over the next five years, assuming capital instruments are available, is between \$2 and 3 billion.⁶ There is a need to help move Aboriginal entrepreneurs further along the growth cycle (and thus along the spectrum of debt and equity instruments) while at the same time working to accommodate the immense increase in requirements forecast both by the growth of existing businesses and, in line with the current demographics of the Aboriginal population, by the expected increase in the number of new business in the next five to ten years⁷. The need is greater than ever, and addressing it sooner rather than later would save individuals from increased economic hardship and market distortions.

III. Starting points: tapping the potential in the Aboriginal economy

A. Unrealised potential: location and opportunities on many reserves

Huge economic and competitive value lay untapped within Aboriginal communities. The workforce is considerably younger than that of the rest of Canada, and is better educated every year. Many reserves occupy strategic locations near urban centres or the border to the US; the real estate and asset base of Aboriginal communities near urban centres is underdeveloped, and possibilities for distribution networks across reserves are unexplored. The tourism sector is growing, but is still operating under potential; foreign investment is negligible and the potential for cross-border partnerships remains dormant. Special tax arrangements are virtually unexploited. The marketing of accumulated intellectual property is not considered within government economic development policy circles, and the opportunities in international development expertise and consultancy have not be taken up by Aboriginal experts. In many cases, market players are simply not aware of these opportunities, and work relating to developing these sectors or taking advantage of these features is marginal.

This hidden capacity extends to many areas of Aboriginal life. There are 884 occupied reserves and Métis settlements in Canada, and admittedly the large majority are located in rural areas. However, 31% are less than 50 kilometres from an urban center. Hardly constituting a 'network', these communities share some of the features of non-Aboriginal communities, but are different from them and from each other in many ways. However, in an age when online shopping is running into the problem of transportation and distribution of purchased goods at the quickest possible speed, it is illogical that the geographic points of distribution offered by these reserves has hardly been considered. An Aboriginal distribution company could move products and goods across the country, given some cooperation and a little ingenuity. In the same vein, one of the biggest

⁶ This figure has been discounted (in relation to the proportional amounts listed in the above chart) to reflect the lower participation levels and comparability with respect to rural and remote economies.

⁷ Aboriginal peoples are 2.5 times more likely to start their own businesses; with a high birth rate and a third of the Aboriginal population under 15, Aboriginal business needs will only increase in the future.

income generating activities for Canadian business establishments is the operation of ports – the number of ports operated by Aboriginal people is unknown, but is undoubtedly under-proportionate. Other opportunities lie in Métis, First Nations, and Inuit businesses being positioned as a *gateway* to the United States, one of the biggest markets in the world.

Exploring other uses for land resources yields the possibilities for real estate development. There are many instances of unsettled land claims where there exist prime development opportunities in major cities in Canada, for example for the development of world-class business facilities, which could lure partnerships and foreign investment which could be leveraged in settling claims. Wise use of this capacity has never been explored as potential economic enterprise or through commercial propositions from the Aboriginal financial community.

In 1999, the U.S. Supreme Court (*State Street Bank v. Signature Financial Group*) affirmed that business processes are patentable, as long as they are novel, unobvious, and produce tangible results⁸. This admission of business intellectual property into patenting protection has spawned the patenting of business models, marketing strategies, and other abstract innovations in recent years.⁹ Through the processes of government negotiations, reconciliation, rebuilding communities, culturally-sensitive economic development, and developing cultural tourism, to name a few, Aboriginal peoples have amassed vast intellectual property that is in demand beyond our borders. Canada invests significant resources in developing its intellectual property, yet the expertise accumulated by Aboriginals has not been recognized for its inherent value within Aboriginal communities. In fact, estimates suggest that American businesses are ignoring an astonishing \$1 trillion in intellectual property wealth,¹⁰ indicating the scale of the potential the Canadian economy leaves unexploited each year. The lack of a coordinated national strategy facilitating the kind of ‘big picture’ thinking that could tap into this potential continues to hamper autonomous development at every turn.

Of course, all of these ideas are just that – ideas. They barely scratch the surface of the untapped potential within Aboriginal communities, but are intended to show what could be possible once an innovative and homegrown approach to economic development is adopted. Consolidated efforts among established organizations can assist in unlocking these hidden capacities if the focus is on the market and market opportunities. Our concern and worry about developing organizational capacity, and rationalizing program existence, has hindered the promotion of such hidden capacity. This hidden capacity is locked in the Aboriginal community, and can only be unleashed by them with the “right” innovation.

B. Building on past success: the AFI network & NACCA

⁸ Rivette, Kevin and David Kline, *Rembrandts in the Attic: Unlocking the Hidden Value of Processes* Harvard Business School Press, 1999.

⁹ *Ibid* 8

¹⁰ *Ibid* 8

Decades of Aboriginal trial-and-error policy-making have yielded some success and have generated some valuable lessons to inform future decision-making. We are now in the position, in terms of our own capacity and policy knowledge, to build effectively on our organizational and resource strengths, and move forward in all aspects of economic development as we never have before. The capacity is present; all that is required is the mobilization of Aboriginal economic potential from the ground up.

A potent example of this is the National Aboriginal Capital Corporation (NACCA) and its network of Aboriginal Financial Institutions (AFIs). NACCA has traditionally taken a singular role in providing business services and capital on reserve through the use of developmental loans. In fiscal 2003 a total of 1,917 loans aggregating \$69,988,220 were provided to emerging Aboriginal entrepreneurs. Historically 25,293 loans totaling \$929,391,250 have been provided by AFI's creating thousands of Aboriginal small businesses, both on and off Reserves and Settlements, employing thousands of Aboriginal people.¹¹ In addition to this astonishing record of financial solvency of most AFIs in a difficult business sector, the success rate of Aboriginal businesses created with assistance and support has been far better than the Canadian average. A 2003 study¹² tracked a sample of ACC clients who received business loans in 1997 for a period of five years, measuring business survival rates that were 58% versus a 33% Canadian norm.

Success in the developmental-loan sector is virtually unprecedented. For example, when INAC ran an economic development loan program in the 1970s, it experienced a default rate of nearly 100% default rate; when the FNDB attempted the same in the 1980s, the default rate was near 40%. NACCA's loan loss rate is 5%.

This experience has shown, again, that Aboriginal-run organisations work. The processes and procedures that AFIs have developed that have made them successful, including utilising the norms and personal relationships of the communities they work in to achieve a low default rate, are processes and procedures that can only be developed with full understanding and belonging within the communities. As discussed in section 2b above, economic development cannot be imposed, and will thrive only when procedures are localised, being fully accepted and understood by local economic agents. In addition to being good business practice, genuinely transferring capacity and responsibility to Aboriginal organisations is a requirement for success in economic initiatives.

Of course, the success of the AFIs does not rest solely on its ownership. They also have effective operating structures, and do business, in most cases, based on sound economic principles. They provide development capital to promote growth, make

¹¹ Historical AFI loan portfolio growth reflected in the chart below does not begin reflecting any Regional Agency AFI loan portfolios until 1999-00 as none was reportedly compiled by the Regional Agencies. NACCA began collecting Regional Agency AFI data in 1999-00.

¹² Don Allen and Associates Consultants Ltd., "Tracking Study of Clients of Aboriginal Financial Institutions – a pilot project." March 15, 2003.

decisions based on economic merit, and provide the proper incentives to achieve high repayment rates. The sole caveats to their operations are the risks posed by credit rationing.

The AFIs number 58 across the country at present, within reach of most remote communities. Their moves towards cooperation and coordination, through NACCA, have increased, making them a network with enormous capacity and reach. Thinking creatively about opportunities to exploit this capacity should be one of the aims of economic development policy makers; unfortunately, this hasn't happened.

In fact, quite the opposite has happened. Many AFIs are facing severe financial difficulties in their core business, for reasons including under-funding in the start-up phase, insufficient later-phase financing, and the stringency of development lending criteria. Much less than taking a larger role in Aboriginal economic development, as logic and past successes would recommend, these institutions are more frequently forced to cut back on vital services and decreasing loan amounts just when demand is growing. In 1996, the Paquin-Rice study¹³ estimated an additional capital requirement for AFIs of \$117.7 million as necessary over five years. PricewaterhouseCoopers, in its December 2000 Situation Assessment of ACCs, indicated that only the largest, most profitable ACCs needed \$27.3 million to enable them to meet demand in the communities they serve¹⁴. It was suggested that "(o)ne might notionally expect that \$20 m [per year] would flow to individual ACCs." If nothing else, the various studies undertaken do agree on a demand in the range of an additional \$100 million over the next five years.

Another conclusion of these analyses is that limited available capital has been a major factor impeding the very service that AFIs were created to provide. In their efforts to stay solvent, the AFIs have begun to take on lower risk loans to diversify their risk portfolio and prevent erosion of their capital base. That this practice is feasible, ie that normal-risk firms are willing to take on high-interest loans, indicates how desperate firms are for capital in these communities, and how they are not being serviced by the mainstream lending institutions. These facts reinforce the urgency of addressing the capital shortfall in Aboriginal economies, and the benefits of utilising proven organisational capacity, capacity that is already at the epicentre of Aboriginal business development, to deliver workable economic solutions.

IV. From here to there: the next steps for setting change in motion

¹³ Based on a 1996 survey of 12 Aboriginal Capital Corporations (ACCs) in which they foresaw a need of \$42.7 million to meet new business demand in the next five years, the sum of \$117.5 was calculated to include the remainder of the total 33 ACCs who did not participate in the survey.

¹⁴ PricewaterhouseCoopers, "Situation Assessment of the Aboriginal Capital Corporations, Final Report," December 2000.

In order to truly embark on a path of change, we must fundamentally overhaul the way in which we examine and define opportunities, and address challenges. To begin this overhaul, we propose four related but separate steps:

1 – National, ongoing dialogue of Aboriginal leaders to consolidate and coordinate economic strategy. We need to overcome the obstacles between us to fully leverage the tools at our disposal, and recognize that cooperation will bring greater benefits than any individual communities can aspire for. Consolidation means assessing the prevailing situation to weed out the duplication of efforts and programs; coordination means determining priorities for the Aboriginal community as a whole, and ensuring that all of our individual efforts work towards the same goals. It is only by being proactive and speaking with one voice that we can overcome tin-cup syndrome and fully capitalize on our full potential.

2 – Shift in attitudes in the Aboriginal community towards grassroots economic development. Each individual has a role to play in the development of their communities, and it is only through full awareness of this role and of capacity that leakage from the economy can be prevented and growth within the economy can be spurred. Aboriginal leaders have a role to play in changing the language used on reserves from that of assistance and aid receipt to that of being active economic actors, in control of their own destiny.

3 – Capacity-building at NACCA. The framework and capacity for development already exists in the AFIs. By developing and keeping the capacity to undertake detailed economic research, economic analysis and financial management at NACCA, the network as a whole would gain collectively and generate institutional capacity and the accumulation of independent expertise for the Aboriginal business and economic sector specifically. This would bring us closer to being able to model and measure Aboriginal economies, testing new initiatives and determining the most effective new policies for growth.

4 – Concentration on building a positive investment climate. Through the national dialogue and the determination of key priorities for the Aboriginal community as a whole, the need for investment measures and capital financing will be recognized as vital to the future health of the economy. Moreover, this is an area in which there is already organizational capacity, in the AFI network; hence it makes sense to support the pursuit of a positive investment climate as a priority. By creatively assessing the investment needs and productive capacities of individual areas and regions, and fully coordinating the approach taken to government relations, the Aboriginal community can be more fully in control of the process leading to its own autonomous development.

I. Conclusion

In *Gathering Strength: Canada's Aboriginal Action Plan*, the aims of government in regards to Aboriginal policy are made clear. Included are strengthening economic

development, fostering self-reliance, and, to quote, “supporting Aboriginal people in their efforts to create effective and accountable governments.”

What we are proposing here is a blueprint for fulfilling these aims, building on lessons learned in Aboriginal policy over the past decades. Aboriginal involvement in these initiatives cannot occupy a negligible or even a secondary place: Aboriginal peoples must take full control over and responsibility for their own economic development and governance issues, and are at the point now where they can and should drive the policy debate with their insights and knowledge.

Economic development opportunities for Aboriginal peoples and communities abound. Our products and our expertise is in demand around the world, and our land has been coveted for centuries. It is time for Aboriginal people to step forward and unleash their own economic potential.