Intelligence MEMOS

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To: Reconciliation Watchers

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Re: **The Best Indigenous Financing Gap Solution? An Indigenous Development Bank**

Access to financing is critical if the Indigenous economy is to make meaningful progress on sustained economic development as a basis for reconciliation.

There are significant market gaps in existing Indigenous financing and it's time for new ideas to close these gaps. In our view, the best approach would be to create an Indigenous Development Bank (IDB), modelled on effective national development banks in many countries. An IDB could be established and capitalized relatively quickly, crowding in much needed capital for Indigenous development. We have done the research and have a proposal that could move forward quickly.

The difference between identified demand and available financing on commercial terms is the biggest issue. We estimate the Indigenous financing market gap to be $50 billion or higher. While welcome, federal plans to establish a loan guarantee program for Indigenous investment in major projects is only a first step.

First Nations, Métis and Inuit-owned businesses are able to access less than a tenth of market-based financing compared to comparable Canadian non-Indigenous firms. Indigenous start-ups and small businesses, as well as larger Indigenous businesses, need better access to business basics such as investment funding, working capital, and bonding. Enhanced financial access is also needed for Indigenous nations, communities, on-reserve infrastructure, and housing.

Legal, cultural, and financial barriers persist for Indigenous businesses. Restrictions on asset ownership under the *Indian Act* limit the ability of Indigenous businesses and entrepreneurs to leverage on-reserve assets. Cultural and historical barriers translate into the unwillingness of non-Indigenous institutions to provide fair and unbiased treatment to Indigenous customers and clients. There are also fundamental creditworthiness barriers; financial track records are often thin or absent.

The numerous existing Indigenous financial institutions face limitations. There are Indigenously governed institutions that build financial capacity and raise debt financing for First Nations. Fifty-eight Indigenous finance institutions are scattered across the country, along with a few Indigenous banks, credit unions and investment funds, but they all generally have small capital bases and limited scope of coverage.

Most Canadian commercial banks have limited and selective internal capacity for Indigenous lending and apply conventional risk management models. Consultations we did with Indigenous economic actors and these banks indicate that experience to date has been mixed, with limited activity and competition among financial institutions. Similarly, federal Crown financial institutions have set up programs and initiatives for Indigenous financing, but uptake volumes are small.

How could the Indigenous financing gap be filled? A new pathway is required, shifting away from heavy reliance on budgetary funding and subsidies, and toward more innovative resource mobilization and access to capital.

We believe establishing an Indigenous Development Bank (IDB) is the right policy option because it provides a degree of commitment that other options do not. An IDB that operates on broad commercial principles could mobilize financing for overall Indigenous economic development including resource and infrastructure projects, business start-ups, firm operations and expansion, development of value chains, and financing for Indigenous Nations, communities, infrastructure and housing. It could provide an array of financing options including loans, loan guarantees, equity investments, and project bonding.

The federal government should be a foundational shareholder and could be joined by others, notably provinces, institutional investors, and Indigenous financial organizations.

To be credible and serve Indigenous economic development potential, the IDB should be an Indigenous-led institution, consistent with the principles of the UN Declaration of the Rights of Indigenous People. Indigenous leaders ought to play a central role in IDB governance, on both the board and within management. Defining the IDB's mandate and positioning in the market is the other key success factor. Ideally, the bank would build overall Indigenous financing capacity by complementing and mobilizing other sources to fill market gaps, working with the grain of the existing financial system, and not simply be a lender of last resort or a competitor. Guarantees, equity and co-financing could be used to attract other capital. It could also be an innovator, such as by sharing in the financial risk and return of its loans and investments, not simply charging a pre-determined interest rate.

The bank's performance metrics would guide its strategic priorities, operating results, and its ultimate impact on Indigenous economic development. Strong financial performance would be essential for such a bank to thrive, where the metrics and standards are well known. The bank should also develop and apply socio-economic development metrics to its business activities to show impact and not just financial return to investors and lenders.

It's time to address the significant financing gaps in the Indigenous economy. Creating an Indigenous development bank is the best way to do so.

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