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Chair

Mr. Blake Richards

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● (0850)

[*English*]

The Chair (Mr. Blake Richards (Wild Rose, CPC)): We'll call the meeting to order. Welcome this morning to the 39th meeting of the Standing Committee on Aboriginal Affairs and Northern Development. In our study on access to capital, we have with us today, from the National Aboriginal Capital Corporations Association, Francine Whiteduck, chief executive officer, and Kevin Schindelka, director of corporate development. Also with us, from the First Nations Bank of Canada, is Keith Martell, chairman and chief executive officer.

Welcome to all of you this morning. We will give both organizations 10 minutes each to make opening remarks, as I am sure you are well aware. Then we will turn to questions from members.

First is the National Aboriginal Capital Corporations Association. Ms. Whiteduck, the floor is yours.

Ms. Francine Whiteduck (Chief Executive Officer, National Aboriginal Capital Corporations Association): Thank you.

[*Witness speaks in Algonquin*]

I'm from Kitigan Zibi. It's nice to be in the territory to present to you. My name is Francine Whiteduck. I am the CEO of the National Aboriginal Capital Corporations Association. Attending with me today is Kevin Schindelka, our director of corporate development. As you may know, NACCA supports a network of 58 aboriginal financial institutions that provide developmental loans and support services to aboriginal small businesses. Within the continuum of lenders that provide loans to aboriginal people, AFIs have a deep reach to communities across the country, are experts in risk assessment, and are highly focused and dedicated to meeting the developmental lending needs.

The AFIs have played a very significant role in Canada. They deploy capital to businesses and entrepreneurs efficiently. They have also played a huge role in creating an investment environment while contributing to building the financial literacy and planning required for the consumer and individual entrepreneurs in the aboriginal communities. They have also ensured that institutional capacity is growing, including the formation of expertise from the private and SME sector.

The AFI network has grown into a significant development loan lending force in Canada and has provided over $2 billion in loans to businesses owned by first nation, Métis, and Inuit people since the time the AFIs were formed in the early 1980s. Despite reaching this milestone, and even though in each of the last five years over $100 million in loans were advanced to aboriginal entrepreneurs, creating and maintaining approximately 3,800 full-time jobs in our communities and in the Canadian economy, the capital needs of aboriginal small business remain great.

AFIs have supports, and they deliver robust entrepreneurship programs and services effectively. In 2014-15, NACCA successfully rolled out the aboriginal development lending assistance program, a NACCA-designed initiative to enhance AFI sustainability. This initiative provides assistance to qualified AFIs to absorb the costs of capital shortfall tied to developmental lending, as well as pre- and post-loan care cost. Ultimately, this means that there is more money available for aboriginal businesses.

In 2016, NACCA will deliver additional equity products to AFIs that will enable them to provide equity, quasi-equity, and business support services for business development and for securing additional third party debt financing. While the equity programs continue to support businesses, the reduction of client equity programs over the last two decades will no doubt have a serious negative impact on the overall growth of the SME sector because of the increased cost of capital that results. The SME sector has proven to be the engine of development to create the jobs that are needed in Canada, and particularly in our communities. The reduced investment to grow the entrepreneurial sector comes at a time when the population of our community, as you know, is expanding.

While I raise this concern, there are some bright spots to note concerning the role aboriginal women play in the development of our communities and the economic contributions they make. Close to 30% of the equity contribution loans in 2014 throughout the network were provided to aboriginal women entrepreneurs. We are encouraged by the 2016 budget announcement of a proposed action plan for women entrepreneurs to help women business owners grow their business and succeed. Indeed, the AFIs, with their deep reach across communities, are positioned to foster greater entrepreneurial activity through partnerships, supports, and leverage, and we look forward to supporting women.

First, in thinking about our needs, we have to think about a dedicated fund to SMEs. We note that there is a need to restore, enhance, and innovate a dedicated SME fund to support aboriginal SME growth across our communities to strengthen entrepreneurship and business start-ups and expansions, as this will provide the jobs that are part of the solution for building healthy aboriginal communities and a thriving private sector, which will really lead to the changes we want to see in the communities.

Second, we also think there's a need to commit to a federal-wide solution to secure and ensure that aboriginal financial institutions obtain the resources and the debt and equity capital that is required for these institutions to continue building our communities. We are looking at new models.

In 2016, NACCA and our federal partner, Aboriginal and Northern Affairs Development Canada, will explore options for private sector investment that enables AFIs to access affordable low-cost capital. The AFI track record is vital for building new models of capital attraction. AFI repayment efficiency rates are at 95%, and a growing number of AFI loan portfolios can provide the adequate collective security that private investors demand. Most importantly, the aboriginal financial institutions demonstrate the ability to manage risk in the aboriginal communities. This creates the confidence that is necessary to attract private sector investment.

We are currently establishing the parameters required for a capital attraction tool, including the anticipated guarantees that would be necessary, the securitization requirements, and identifying the extent of a federal government role required to create a successful model to engage the private sector. The anticipated capital attraction model will be flexible and, while security and return on investment are certainly on the minds of private and institutional investors, there are other capital-raising opportunities related to emerging innovative finance solutions for impact investment.

Aboriginal people seek to use investment capital to drive positive social and environmental impacts. Clients of AFIs share stories about what it means to be able to provide for their families and to grow second- and third-generation businesses. This is what is important to our community. The types of lending that AFIs create provide positive benefits far beyond business results and include immeasurable improvements in the aboriginal people's quality of life. That's why I spoke of a dedicated fund. We have to really look at investing and increasing that.

Community members see success and recognize what is possible. Parents talk to their children, open their minds to opportunities and their creativity, and allow them to see their future potential. That's what SME development really is about.

I would categorically state that the AFIs have been in the forefront of social impact financing in Canada for many years before it became as well known as it is today. AFIs have measured the social outcomes of development and lending and linked these to financial returns.

In the aboriginal community, I know that there's a lack of financial wealth, but there is potential and there is no shortage of innovative ideas. AFIs bridge this gap by making capital available to entrepreneurs who will build success in their respective communities. This is what we think about when we think about the SME sector and the role that AFIs have played in our communities, not only in the past but going into the future.

Thank you for inviting NACCA to speak today. We look forward to all of these developments.

Meegwetch.

● (0855)

The Chair: Thank you very much.

We'll move now to First Nations Bank of Canada and Mr. Martell.

The floor is yours for the next 10 minutes for your opening remarks.

Mr. Keith Martell (Chairman and Chief Executive Officer, First Nations Bank of Canada): Thank you.

Good morning. It's a pleasure to appear before your committee today.

As the leader of an aboriginal-owned chartered bank that primarily focuses on Inuit, Métis, and first nations customers across the country, I have significant experience on the topic being discussed today. I also bring with me the perspective of a person with close and ongoing relationships and connections to life on reserve. I was born on a reserve, and I have a significant portion of my family still living on the Waterhen Lake First Nation in northern Saskatchewan.

The problem with access to capital for aboriginal communities is really rooted in the history of failed intervention by non-aboriginal governments and the negative impact of Canada's aboriginal policy, which have sidelined economic development for aboriginal people. The results of these failed policies are ongoing challenges like the Indian Act, the lack of basic financial services to many people in remote and small first nations, and an undereducated and under-employed aboriginal population. But besides these aboriginal-specific issues, we also have to consider even the basic challenges faced by any Canadian small business, which are not unique to aboriginal people.

In our discussion, we'll address many of these complex issues, I'm sure. I'll focus my opening remarks on the need to focus on a broad spectrum of financing solutions to address the problem of access to capital for aboriginal people. I will also raise concerns about focusing on a panacea, a one-size-fits-all solution, and I will highlight the significant progress that I have seen through a few recent examples that we have been involved in.

To my first point, capital, although usually denominated in dollars, doesn't come in only one form. Capital markets have developed over many years and have designed forms of capital that address the needs of both lenders and borrowers. Capital is designed to meet the purposes for which it is being used. Structuring a capital transaction must consider critical issues like the capacity of the borrower to service the debt and the need to track and monitor repayment.

The cost of capital is a factor that is very much dependent on all these issues. Simple yet fundamental issues, such as the terms of the debt matching the life of the asset being purchased, are critical. That's why you don't see car loans amortized over 30 years, and why you typically don't see public infrastructure debt for water and sewers financed over five years. The useful life of the assets being purchased needs to be a close match to the term of the loan.

What does this mean for aboriginal people? Well, for too many years, the only form of capital to finance anything, from infrastructure to economic development, was transfers from other governments. Aboriginal people lost the capacity to raise their own capital, and everything they financed was subject to the priorities and timelines of other governments.

Before the mid-1980s, even when financing business development, whether community-owned or individually owned, the only source of capital was typically government grants or government-managed borrowing. For example, in Saskatchewan in the early 1980s, the federal government ran a first nations economic development loan and grant program. Loans typically were being made for political purposes instead of business purposes by bureaucrats with no knowledge of the community's priorities. With no support services for these growing small businesses, the loan loss ratio for this program was 80%. Eighty cents of every dollar loaned was written off and never repaid, and few sustainable businesses were developed.

Then the first nations of Saskatchewan created the Saskatchewan Indian Equity Foundation, the first aboriginal capital corporation and a member of NACCA, and they sought to turn around the experience. They were armed with community knowledge, a sense of ownership of the fund, and some business support services for the entrepreneur. They turned around the program and achieved a loan loss ratio of 1.5% by the early 1990s. I am sure my colleagues at NACCA will explain further in the questions and answers some of the successes of the aboriginal capital corporations.

Leading from the creation of these aboriginal capital corporations, aboriginal-focused financial institutions, such as the First Nations Bank, a federally regulated, tax-paying chartered bank, and the Peace Hills Trust, a federally regulated, tax-paying trust company, were created. Both of these organizations focused on commercial lending for the growing aboriginal sector of the economy, and soon other mainstream chartered banks started to concentrate on the growing aboriginal business sector. Today, a very competitive environment exists to meet the commercial banking needs of the aboriginal economy.

As larger aboriginal business ventures started to grow and develop, many also started to use a variety of financing options, including structured debt, financing through bonds, share capital, both private and public, and complex business structures with non-aboriginal partners and investors. While it's still developing and is not nearly as advanced as other sectors of the economy, we are starting to see a much healthier continuum of capital structures that are providing the right capital in the right form, and at the right price and conditions, to meet the needs of the aboriginal communities.

● (0900)

My second point is a warning that some financing options have somehow become a panacea to address all problems in all situations for aboriginal people, and the fundamental realities of financing and the continuum of financing options required have been forgotten.

For example, the First Nations Fiscal Management Act was created to enable first nations of Canada that have government-like sources of revenue from taxation, royalties, or land leases to leverage these government-like revenues with long-term bond financing for infrastructure. The institutions created by the First Nations Fiscal Management Act were developed to address this issue, and I still firmly believe that these institutions, which were designed to help leverage government-like revenue into government-like financing, are needed and are an important part of the financing continuum I noted in my first point.

However, sometime after the First Nations Fiscal Management Act institutions were created, their mandate was expanded, and they are now aggressively attempting to lump all other revenues, including revenue from business enterprises owned by first nations, into their lending models. These other revenues are often not government-like revenues, and the FNFA indicates that they can include everything from first nations' interests in forestry, oil and gas, and hydro, to convenience stores, hotels, and gaming operations.

The FNFA, with the support of Canada, is effectively institutionalizing commercial borrowing of its member first nations for commercial purposes, with the support of Government of Canada grants and contributions. While the objective of the FNFA was originally to securitize government-like revenue, in fact most of the revenue used to leverage its first bond issue was commercial revenue. Also, much of the amount borrowed was used to repay existing debt with commercial banks, not to finance new projects that were unable to attract capital.

The FNFA also is quoted as saying at this and other committees that some of its members saved large amounts of money by borrowing through FNFA, and in one example it claimed that a first nation is “saving $140,000 per month” in debt service through using FNFA borrowings. When you look more closely at this and do the math, you'll see that the savings are mostly due to the fact that the community refinanced existing loans with amortization periods of over 5 and 10 years with the loan from the FNFA, which was amortized over 30 years. In fact, most of the savings come from a reduction in principal paid in any given year.

One further problem in this example is that while the loan is being amortized over 30 years, the interest rate on the bond from the FNFA is set for only 10 years. If in 10 years interest rates are higher than the current all-time lows, there will be a significant amount of principal still to repay at a much higher interest rate. In fact, in amortizing a loan over a much longer period, the true debt service costs, which are the interest you pay, are actually much greater.

What the FNFA is proposing by lumping government revenues with commercial revenues for borrowing purposes is like a for-profit commercial business teaming up with a province or a city to float a 30-year bond. This simply is not done in any other sector of the economy. The danger in this amalgamation is also that the underlying risk of all the entities grouped together in one bond issue is not reflected in the borrowing rate, the term of the loan, or the conditions of the loan. The default risk of some of the participants in the pool is much greater than that of others. With the FNFA borrowers having joint and several liability for the bond, the good credit in the pool may end up paying for the bad.

If defaults happen in the FNFA borrowing pool, two things will occur. First, it will become infinitely more difficult for even the best-rated first nations credit to get bond financing. Second, everyone who ends up carrying the cost of losses in the pool is going to look for someone to blame, and the federal government, without any independent advice from financing experts and with many warnings from bankers like me, will end up being in the middle of that cleanup. This will make it infinitely harder to get federal government participation in any future financing for aboriginal economic development.

Lastly, I want to advise the committee that when it comes to financing commercial enterprises of aboriginal communities by commercial banks, a lot is being done, and institutionalizing all first nations financial services is not a good idea. Our bank was created to address a niche in the market for a bank that was focused on aboriginal communities. A vast majority of our shareholders are aboriginal organizations, and a vast majority of the loans, deposits, and cash management services we provide are in the aboriginal market. While I think we have an advantage because of our focus and ownership, other banks now are very competitive in serving this market, and most banks have teams that are also focused on this market and are now providing a much better level of service to aboriginal customers.

● (0905)

There are also many large and successful first nations commercial developments that have independently raised, properly priced, and structured bond financing. ln the last two years I have personally been involved in three large-bond structured finance deals: one for a first nations purchase of an interest in a hydro dam project, one for a hydro transmission line owned 25% by a first nations group, and one for a hotel gaming facility.

These developments attracted institutional financing at rates sometimes lower than the rate the FNFA is offering on their bond and for terms of 25, 15, and 8 years. In all those circumstances, the rates, the terms, and the conditions of these three developments were competitively quoted by institutional investors and banks, based on the underlying business and the conditions required to protect the bondholders and the first nations borrowers.

I hope my presentation was helpful, and I hope the recommendations of this committee take a balanced and informed approach on this issue that won't create new and larger problems for the future social and economic advancement of aboriginal people.

I look forward to your questions.

The Chair: Thank you very much for your presentations.

We will move right to those questions now.

First up, we have Ms. Hughes for seven minutes.

Mrs. Carol Hughes (Algoma—Manitoulin—Kapuskasing, NDP): Thank you very much, Chair.

Thank you for being here.

Ms. Whiteduck, we had the past CEO, Ms. Pelletier, before us a while back. I think it was on June 3, 2014. I see that your presentation relates to some of the issues that she also brought up. She didn't have a lot of time, unfortunately, because we were going to votes and we knew the bell was going to ring, so people had to condense their presentations.

During her presentation, she talked about the fact that you were looking at “satisfactory resolution of broadening access to sustainable lending, increasing AFI network capacity, and expanding client services that [would] better position AFIs to put forth the fourth pillar”. She talked about a pilot program and said:

> Right now we're working on a pilot program that will serve as proof of concept for the pilot, with emphasis being placed on securing capital from aboriginal sources including AFIs with high liquidity, aboriginal financial institutions, and aboriginal trusts.

I'm just wondering if you are able to elaborate on that at all. Has there been any movement, and how has it been working?

● (0910)

Ms. Francine Whiteduck: We have made a lot of movement. We worked with Deloitte this year to do an independent study of the liquidity and the needs of the AFIs in the network, and to look at how we could structure this capital-attraction tool. We've come up with some notional ideas, and there were some underlying assumptions around what Lucy had presented regarding how the AFI network can support a capital-attraction tool.

We're just finishing up the study with Deloitte now, and we're beginning to have discussions with some private investors in the marketplace on what this tool might look like, whether it is attractive to them, the interest rate they require, and the issues they see with the model we have identified.

We also had some key findings, especially around the assumption that there was this very high level of liquidity in the system, which has proven not to be the case. I think Kevin will speak to this a little more, because he participated in the study.

Kevin, can you explain that a little more?

Mr. Kevin Schindelka (Director, Corporate Development, National Aboriginal Capital Corporations Association): As of March 31, 2014, there were a number of AFIs identified in the group and they require capital of $78 million to properly position themselves to deal with the private sector. Some of them, such as the First Nations Bank and the Peace Hills Trust, which Keith mentioned, have already gone to institutions and have levered assets to get additional capital to put out in loans.

When you consider the fact that they've had to go out and borrow funds—there's a $78-million deficit position—that includes a liquidity requirement, and in this industry, it is usually a six-month supply of loans, of capital. This includes that six-month supply.

Some other AFIs have surplus capital. We found in the Deloitte undertaking that we can't necessarily take their surplus and give it to the ones that are in a deficit position. They're all private focused capital corporations or AFIs that deal specifically with a certain geographical area or a heritage group. You can't take nickels from one piggy bank and just plunk them into another.

So there is a need to raise capital and, as Francine said, the work with Deloitte indicated that it's quite an undertaking to balance. As this unfolds or develops, it will become clearer what kind of support and assistance we're going to need.

Ms. Francine Whiteduck: One thing we saw there was that there was an assumption that there was a lot of liquidity in the system, and the interviews with the AFIs have proven that it's not nearly as high as everybody was touting before. It's actually quite small. That was one of the underlying assumptions that made the tool attractive, so now we really need to take a look at what that means.

In the study, we were not clear when we started out in regard to the private sector looking at how much equity the network itself would put into this investment pool in putting some skin in the game. While we thought it might not be a big factor, as the discussions wore on and we started to talk to private investors, it became a factor that was identified. That was a bit of a revelation to us, because we weren't expecting it to be. We thought that with the security, with the overall pool, that would be sufficient, but people look for more skin in the game from the AFIs than we originally thought. We're going to have to look at how we address that.

● (0915)

Mrs. Carol Hughes: Thank you.

The Chair: We will move now to Mr. Dreeshen for the next seven minutes.

Mr. Earl Dreeshen (Red Deer, CPC): Thank you very much, Mr. Chair.

Thank you to the witnesses for being here today and giving us an interesting perspective.

Ms. Whiteduck, I'd first of all like to speak with you. Among the things you spoke of, you talked about financial literacy. Again, that is something that is so important. I'm a former math teacher, and one key thing that I always felt a student should know when they left school was how to manage their money and look after themselves and their families. It's extremely important. I wonder whether you'd comment a little on how that works, but I'd also like to go to a couple of other points.

You spoke about how NACCA in 2016 will be taking a look at equity and quasi-equity and third party lending opportunities, but of course you're saying that the increased cost of capital is a concern. Can you take a look at that?

You talked also about the role of aboriginal women and how they're taking up a large portion of the activity that is there. I wondering if you could deal with that.

You also spoke about commitment to a “federal-wide” model for debt equity, about taking a look at where it is right now and what you feel about it, based on the type of equity that you have in the communities and that maybe not everybody looks at.

Could you comment on those points?

Ms. Francine Whiteduck: With respect to financial literacy, I mentioned that the AFIs have played a role. As we look at their development over time, we can see that AFIs were greatly involved in our communities in the education process regarding financial literacy. When they started in the early 1980s, they really were the ones that were talking about the need to separate business and politics and to really look at separating the business sector from the political sector and at governance and everything that is required. It has been and continues to be a long-term process.

The AFIs are recognized as a source of knowledge in the communities and certainly have played the role of creating a more financially literate community with respect to business development. There is a need to go further. We have to get it across to all sectors of our community, particularly to young people in the schools. Keith and I were at that policy forum last week and talking about financial literacy. One point Keith made was that it's a question not only of financial literacy but of literacy in general. We really need to start addressing the education of our people in the communities in a very broad way and specifically looking at financial literacy.

The AFIs work in the communities. There are 58 of of them covering almost all of Canada. They are the ones working with the SMEs, the small and medium-sized enterprises, with the business owners, to get those concepts well established in the community. From there, it grows. They have played that role for a long time, and I think they have not been recognized in terms of the work they have done. They will continue to play that role, and they are getting more sophisticated in the type of lending that is required. As our business community grows, literacy increases. It's a long-term process, as education is.

Kevin will speak to equity and the quasi-equity, but first I want to talk a bit about the women. I've worked with women for several years, mostly in APEC projects. The changes that women make in the communities and bring to the communities, when they have that support, are outstanding.

It's the same in our community. I think there is a bigger role that they could be playing. We actually provide about 30% equity for women, and as we work with them to define how they play a role, not only in their own businesses but in understanding the family structures and the impact they have, it includes the financial literacy aspect and the caring for all of the community. As we build and create more businesses, we'll see an expansion there. The problem is that we have a limited amount of capital, and we can only do so much because it's limited. I think we haven't reached out to a great number of women and other potential entrepreneurs who can serve as catalysts in the community. But certainly, they contribute immensely to economic development in our communities.

Maybe you could speak to the equity and quasi-equity, Kevin.

● (0920)

Mr. Kevin Schindelka: In AFIs' dealings with aboriginal clients, they will often attribute a value to the business planning and research that people put into a business concept, but in terms of the equity the clients need to invest in their business to make it possible to give them even an AFI loan, that can be difficult to achieve for someone on reserve, in particular one that has limited resources, and who has a family that doesn't have assets or resources to provide them either.

Federal programming has been instrumental in providing a piece of equity that helps people get started. It started, I think, with the CCAB strategy in the late 1980s or 1990s. CCAB's strategy looked at the challenges of getting into business on reserve and said, “You will need access to debt capital, and in order to get that capital, you'll need to have some equity programming.” They developed some programming that was very well thought out, useful, and beneficial, and that has spawned a lot of the AFI loans and even some in the conventional sector. That has appeased or reduced some of the costs of capital that they incur.

Mr. Earl Dreeshen: So then is that one of the reasons why you—

The Chair: Mr. Dreeshen, I'm sorry, we'll have to stop you there. I did want to leave a little time for the witnesses to finish their responses, but we are over time. Maybe you'll have another chance.

Ms. Bennett, we have you next for the next seven minutes.

Hon. Carolyn Bennett (St. Paul's, Lib.): Thanks very much, Chair.

Thank you for what you do.

I did sense from you, Mr. Martell, a certain “do no harm” caution in terms of the role of government. I guess you were cautioning the committee not to dive in and make a whole bunch of recommendations that haven't been completely thought through from the bottom-up perspective of what happens on the ground when certain things are put forward. Even in terms of Ms. Whiteduck's suggestion of an SME fund, or the concerns I heard expressed about the FNFA, I think we will be hearing from witnesses about how we can do a better job of getting people credit ratings and trying to do something.

If you were writing this report, what would the recommendations look like?

Mr. Keith Martell: As I mentioned, I think you really have to consider the continuum. You have two points on a continuum of aboriginal economic development here today. NACCA and its members are developmental lenders. They deal with start-ups. They deal with providing not commercial bankable loans but equity loans to people who are in the start-up phase.

Frankly, the reason that the Saskatchewan Indian Equity Foundation, which is an aboriginal capital corporation, created the First Nations Bank was that they started to see their success leading to contributing customers to commercial banks, and they felt it was important to create the next level in the continuum, which was the First Nations Bank, which is a commercial lending institution. We don't do developmental loans, but I think we bridge the gap between developmental loans and where a business entrepreneur and an aboriginal- focused business will go to get their next level of support.

I think your recommendation has to consider that continuum. To simply say that “we need to create a government program to lend to every first nation in this structure” is going to eliminate all the kinds of capital that are the right kind of capital at the right price and in the right circumstances that every aboriginal business needs. It just puts everybody into the same boat, frankly, and again tied at the hip to government. That's the problem we've had in the past. All the solutions were government driven, and there was no private sector involvement in creating sustainable solutions for aboriginal communities. I would just warn you to not get back into that same boat and try to see if it floats this time.

● (0925)

Ms. Francine Whiteduck: Certainly, there is a continuum of lenders out there. Keith spoke of it in terms of the AFIs. It's developmental loan, so it's high risk. We're dealing with entrepreneurs who are learning. They've had little or low experience in running a business. They don't have credit. Also, they're start-ups, which, like anywhere, makes them all risky. When you couple that with some of the issues you see on reserve, and even off reserve, for that matter, that really becomes a high-risk loan that we have to work with entrepreneurs to stabilize. That's why capacity building is so important.

The goal of the AFI network is to move those borrowers along this continuum at some time. The price for a developmental loan is higher. There's a charge to it. It really is unfortunate that we have some of the poorest people in a place as rich as Canada paying those high charges on the capital costs to develop businesses that are going to support their communities.

But that's the model we've had to work with. We've made it work. The AFIs have made it work. But we don't want to keep people there. At some point, you want to move them along that continuum. That takes time. It takes a recognition that we are in a developmental phase in aboriginal communities in Canada. That's the role the AFI has played. That's where they segment into this ongoing continuum.

In terms of the AFIs, they've become a little more sophisticated in their lending after 20 years. Their lending was typically limited to $250,000 in loans. Their lending is starting to get a little more complex and a little more sophisticated, so you're going to have some growth there. If you look at aboriginal communities across Canada, you'll see that the needs in terms of developmental lending are great. We see that requirement being there for some time until there's a much more integrated economy within the aboriginal community and the Canadian economy. I think that's happening and we're seeing some successes there in the bigger projects, but it still is going to take some time.

Hon. Carolyn Bennett: You've said that there's only so much capital and that there could be an SME fund. How would you do that? Who would run it? What would it look like?

Ms. Francine Whiteduck: The reason I talk about a dedicated fund is that right now the capital is all thrown in there and there's nothing dedicated. It's discretionary. Because a lot of the funding we get is from Aboriginal Affairs, it's discretionary.

If somebody needs to build an infrastructure project in a community, and if the need is great and they manage to get in and convince somebody of this need, the capital that may have been destined for an SME development goes away. I think we've experienced that in some of the programming we have this year in the aboriginal business financing programming. We were talking about a higher level, and somehow a part of that money got put towards something else.

We need to stop that. If we want to have success in the SME sector, we really need to focus on developing it and on guarding some of those resources to assist the developmental components.

● (0930)

Hon. Carolyn Bennett: Am I hearing from you, Keith, that you think the private sector could be enticed to help with that if there were training and safeguards? That it shouldn't just be government?

The Chair: I'll have to ask for that response to be quite brief. We have reached the end of our time.

Mr. Keith Martell: Briefly, some level of developmental lending is always tough and it's difficult for the private sector. For the same reason that the Atlantic Development Corporation and Western Economic Diversification Canada are government programs, that's effectively what the aboriginal developmental lending really is as well. Some of it's difficult for the private sector to do. It's not a for-profit business.

The Chair: Thank you very much.

The next seven minutes belong to Mr. Barlow.

The floor is yours.

Mr. John Barlow (Macleod, CPC): Thank you very much.

I appreciate all of you being here today. This is a very important issue and it's great to have your feedback.

Ms. Whiteduck, I want to start with you, if that's okay.

I know that Mr. Dreeshen touched on this a bit, but in another committee we are in the process of completing a study on women's entrepreneurship and leadership in business. I found it interesting that one of the stats we had on it was that almost 40% of small businesses are either completely owned or partially owned by women. In High River, one of the towns in my riding, 80% of the small businesses are owned by women. We're seeing a real trend. They are catching up and surpassing as small business owners.

You mentioned that about 30% of the loans you've given out have been to women. Is this a new trend? Can you say what has sparked this energizing of that part of the business sector?

Ms. Francine Whiteduck: First of all, way back in the early eighties, they did start tracking how many loans were going to aboriginal women and to youth and taking a look at how we were having an impact. Along with the Canadian trend itself, aboriginal women are following that, although they're behind it.

As I said earlier, aboriginal women play important roles in our community. Very often, their businesses are also family businesses. They engage the husband, the son, or the daughter. Aboriginal women are some of the most resourceful people you will find; they've managed our communities in the state that they are in.

They are participating. In terms of the statistics, some of the issues that women face are different in our communities and for women in general. Addressing those will give them the supports they need. The biggest one—and I think the biggest one that is weighing on aboriginal women in our communities—is that they take care of so much. The load on them is extreme. Typically, when you look at women in general, they run the household, they do a lot of other things, and they're running their business.

I think that first of all because it's very cultural, the women in aboriginal communities have stepped up to play this role they have in leadership in the communities. They are stepping up to that now, learning business, and acting on it. Really, for women, it's about how they contribute to their families. The impact there is big. It's huge. It goes down to the kids. It goes down and it creates the education you need, and as we follow the statistics relative to the Canadian economy, certainly there's a much bigger role in our communities just because of the level of development that is required.

Mr. John Barlow: There's the other part of that, which we learned about quite extensively. It's nice to hear you mention that we have $700 million in this year's budget for women entrepreneurs, which is fantastic, but part of that funding and part of that program is mentorship, which we found was very important.

With respect to some of these financial programs, and not just those specifically for women, are there business support programs as part of that? Once they do get a loan, is mentorship available? Are financial literacy programs available not only to get them going but to help them be a long-term success? Kevin is shaking his head, so maybe....

Ms. Francine Whiteduck: Yes, we have the aboriginal capacity development program, ACD—there are a lot of acronyms in this world—that is available with training in and for the AFIs where they require supports. Some of the AFIs have some mentorship programs that provide the care that is needed for the aboriginal business they may have funded. There are other programs as well. They may not be women-specific, but certainly the care is there.

● (0935)

Mr. John Barlow: Thank you.

Do I have a minute?

Mr. Martell, I'm going to switch to you. I may have misunderstood you, but you said near the end of your presentation that commercial banks and commercial financial institutions are starting to get a little more involved. Is that right?

Mr. Keith Martell: They're very involved.

We deal with many first nations all across Canada. About 90% of our loan portfolio is to aboriginal groups and first nations individuals, and we compete regularly with all the big banks whenever we go to an opportunity. They're all there and they're being quite competitive on price and service.

Mr. John Barlow: I'm new to the committee, so this may have been addressed in the past, but what is the difference between what a first nations financial institution can offer compared to a commercial bank? What are some of the differences?

Mr. Keith Martell: The AFIs are represented by NACCA and are developmental lenders. As Francine said—and she can speak to it better than I—these are for smaller, developmental loans.

Commercial loans are typically what you'd see from existing chartered banks. They need to be on commercial terms and purposes and the ability to repay. They're not equity loans. They're commercial loans. What we provide is that commercial banking, and not only the loans. We also provide deposit services and cash management services. All the kinds of things that make a business run is what the commercial banks and, frankly, our bank offer to first nations aboriginal communities.

Mr. John Barlow: What is the challenge for first nations businesses and communities to access commercial banks? Is land ownership an issue, that collateral...?

Mr. Keith Martell: There are a lot of issues. The Indian Act and the collateral issues there are part of the challenge.

Banks like ours and other banks figure out ways to deal with that. Instead of looking at physical security of an asset on reserve, we look for cashflow security. We're really cashflow lenders. That's what a lot of banks in a lot of parts of the world do, and that's really what we have to do on reserve.

Frankly, the bigger challenge is the developmental nature of a lot of aboriginal business. Even aboriginal communities' first nations governments are just developing their capacity to support, service, and attract capital, and that's probably our biggest challenge.

Mr. John Barlow: At the end of your comments, your—

The Chair: Mr. Barlow, your time has essentially elapsed.

Thank you.

That concludes our first round of questioning. We'll now move into our second round. Members will have five minutes for each portion of this round. I'll just point out to the witnesses that some members may choose to ask questions or make their remarks in French, our other official language.

Next we have Madam Quach for five minutes.

[*Translation*]

Ms. Anne Minh-Thu Quach (Beauharnois—Salaberry, NDP): Thank you, Mr. Chair.

I thank the witnesses for having come here to discuss first nations funding with us.

Mr. Martell, you talked about the difficulty of accessing capital and basic services in remote areas. You also spoke about all of the obstacles in the Indian Act.

Can you tell us what those obstacles are and what consequences they have on indigenous populations?

[*English*]

Mr. Keith Martell: The largest barrier under the Indian Act is the inability of a financial institution like ours to take security of a physical asset on reserve. Typically, if we were doing a vehicle loan for a grader in a northern non-aboriginal community, for example, we could take a chattel mortgage on that security. If the loan wasn't repaid, we could effectively take that asset back and use the proceeds to repay the loan.

With the Indian Act, we're precluded from taking physical security of physical assets on reserve. Effectively, instead of us being able to take a chattel mortgage on that grader, we have to use innovative things. For example, we have to take the assignment of the contracts that the individual might have with that grader, frankly, because we can't take the physical asset. A lot of first nations will waive that right, frankly, but it is still a barrier for many first nations communities.

That's part of the challenge under the Indian Act. We just have to find ways to get around that detail, but it does create some apprehension from some financial institutions in doing business on reserve.

As far as the remote locations go, it's like every small community. Even in the prairies, frankly, we're seeing that in a lot of small towns the financial institutions are closing and moving to larger centres.

In a lot of the aboriginal communities we deal with, people have difficulty getting just basic financial services, such as a bank account. For example, the government requires banks to get two pieces of picture ID.

Also, in a meeting last week, I mentioned one of the huge barriers. One of the pieces of government-issued identification that a lot of first nations people have is a status card. The Department of Indian Affairs has a policy of one status card per year, so if you lose your card, you effectively have to go for the remainder of the year without that piece of identification, which may make it difficult for you to even get a bank account.

Those are little niches in the system that cause difficulty for an aboriginal person in getting access to banking.

● (0940)

[*Translation*]

Ms. Anne Minh-Thu Quach: Thank you.

Both you and Ms. Whiteduck spoke about the difficulty of obtaining long-term capital and about the fact that this was mostly startup capital.

What can the federal government do to support aboriginal financial institutions that want to help develop businesses?

[*English*]

Ms. Francine Whiteduck: Yes, certainly. There is a lot that the federal government can do and that it has contributed to in the past.

I mentioned the equity issue: it's just not there in the community. They don't have the assets that you would find in the non-aboriginal community for people wanting to start up a business. Or if they do have assets, that's all they have. It's very hard to pledge something that is required. Some of the programs have been helpful in recognizing the issues that are faced by people without the pledge and the security. The aboriginal business financing program that we're looking at this year allows us to address some of those issues.

In terms of long-term development, because of the nature of supporting businesses that are high risks, that tend to have a higher failure rate, and that have no credit or proven track records.... These things have to grow. Businesses don't just grow and become successful overnight. It's hard to make those cashflows attractive very quickly. It's something that has to be grown over time. To put that kind of pressure on any business that is a start-up makes it difficult for the business. To me, it's really about longer times, longer incubation periods, for those businesses that are start-ups.

Also, for so much of the aboriginal community, we've been compelled to be successful right off the bat. We haven't had a chance to fail. Or we're judged severely. There were some things I heard about in my travels when I was working at APEC. If you make risk capital available, allow people to fail, and recognize that there are going to be some failures along the way....

Samsung, I think, was the company that tried to grow their products, and what they found was that there was no innovation. That innovation wasn't happening because the fear of failure was so hard to deal with. When they recognized the problem and actually added some capital that allowed people to fail, the innovation expanded considerably. We have to think about that, particularly in aboriginal communities, where so often we can't seem to fail without being judged so intensely.

● (0945)

The Chair: Now we'll move to Mr. Seeback for the next five minutes.

Mr. Kyle Seeback (Brampton West, CPC): Thank you, Chair.

Ms. Whiteduck, how are AFIs capitalized? Are they capitalized the same as a schedule I bank—based on deposit ratios—or no?

Ms. Francine Whiteduck: No.

Mr. Kyle Seeback: How are they capitalized?

Ms. Francine Whiteduck: Do you want to take this, Kevin?

Kevin has been around since day one, so....

Mr. Kevin Schindelka: There are three kinds of AFIs: aboriginal capital corporations that were capitalized by Industry Canada and Aboriginal Affairs; aboriginal community futures development centres that are capitalized by Industry Canada through regional agencies; and aboriginal developmental lenders that were capitalized by either the private sector or by provincial governments, which are now starting to capitalize some of them.

Mr. Kyle Seeback: So very few are capitalized based on private money or deposits.

Mr. Kevin Schindelka: Very few: there are no deposits.

Mr. Kyle Seeback: So they're not based on.... What are the lending ratios? Is it just whatever the money they have?

Mr. Keith Martell: It's one to one.

Mr. Kyle Seeback: It's one to one, so they're not like schedule I banks at all.

Mr. Keith Martell: No.

Mr. Kyle Seeback: Okay.

When we talk about the issue of getting financing, I want to talk first about business financing.

We had some people here on March 12. Chief Manny Jules came to speak at the committee. He said that the "most common method of access to capital in Canada is home equity" and that "over 50% of all business start-ups use home equity". Then he went on to say that, as we've talked about, the Indian Act under section 89 of course effectively prevents that. How big an impediment do you see that being with respect to getting small business loans?

Keith, you provided me some alternatives. As a lawyer, I used to do collection proceedings, and taking assignment of a contract is not an awesome way of trying to collect money from a debtor.

How big an impediment is this?

Mr. Kevin Schindelka: It's offset to a large degree by the client equity programming that Industry Canada and AANDC have put in place. That's really to replace the absence of home equity.

Mr. Kyle Seeback: How does it work?

Mr. Kevin Schindelka: The client's business plan is developed. If it is shown to be viable, a contribution toward the establishment of that business is made, and the financing, whether it's from an AFI or a conventional institution, then falls into place.

Mr. Kyle Seeback: Okay, but that would mean that a first nation business basically is going to be limited to getting those funds through some of those particular programs.

Mr. Kevin Schindelka: Yes.

Ms. Francine Whiteduck: Yes.

Mr. Kyle Seeback: They're not going to be able to access in general any traditional forms of capital.

All right. That leads me to my next question, then. How available are these programs for first nation businesses? Is everyone who wants one of these loans that you're describing able to get one? If not, why not?

Ms. Francine Whiteduck: As I mentioned earlier in my presentation, it has become quite limited and has been reduced over the last 20 years in a very significant way.

Mr. Kyle Seeback: It has been reduced why and how?

Ms. Francine Whiteduck: Well, way back when we started, the funds that were available.... It included a little bit of both, but we were talking about $50 million to $75 million being available to entrepreneurs, which they could access—

Mr. Kyle Seeback: And what's the amount that's available now?

Ms. Francine Whiteduck: It's $24 million.

Mr. Kyle Seeback: Is that due to moneys not being repaid and therefore the cash pool having been depleted over time? Or is it just that the actual amount available has gone down over time regardless of repayment?

● (0950)

Mr. Kevin Schindelka: It's funding reductions.

Mr. Kyle Seeback: Funding reductions have taken place.

So you would say that the demand for these loan products exceeds the supply.

Ms. Francine Whiteduck: Yes, absolutely.

Mr. Kyle Seeback: Okay.

Ms. Francine Whiteduck: We're limited to developing what is available, right, so if you have a smaller pot of money, it's going to limit you. If you were to increase that, I don't know how it would look. I think we'd see some innovation there.

The Chair: Thank you.

Next up we have Monsieur Ravignat.

Mr. Mathieu Ravignat (Pontiac, NDP): *Meegwetch*, Ms. Whiteduck, for being here, and to the others for your presentations.

It's nice to see somebody from Kitigan Zibi at committee. I know you're quite active, as you mentioned when we met briefly in the community. Thank you for that.

I wanted to touch a bit on the AFI funding model and in particular on whether or not you agree that the current funding model base affects the provision of services or the ability to engage in long-term loans and larger business projects.

Both the first nations in my riding, Kitigan Zibi and Barriere Lake/Rapid Lake, have potential for some very large natural resources extraction projects that are very controversial, as you know. I'm concerned about knowing whether or not the funding model could be improved to ensure that these kinds of large projects both reflect the needs of the community and provide a funding model that is sustainable.

Ms. Francine Whiteduck: Again, in terms of the AFIs, we're quite limited, and it's limited for a reason. As you look into long-term development, you're really looking at a different kind of capital requirement if these projects are viable. The AFIs are focused on developmental lending. They're loans that are limited, in a range of $250,000. There's the possibility that they will grow into bigger loans, but I don't see it becoming much bigger than that, because then we're talking about different financing structures.

Mr. Mathieu Ravignat: Okay. What would those different financing structures look like? How could that be—

Mr. Keith Martell: That moves up the continuum.

Mr. Mathieu Ravignat: Yes.

Mr. Keith Martell: You can't look at any part of financing and say that money is capital and it all comes from the same place.

AFIs are developmental lenders. They bring small and medium-sized businesses up through that food chain and from non-business people to capable business people with some equity. They would take that equity, go to a commercial bank like ours, and start to leverage that up to become a big business.

Mr. Mathieu Ravignat: But I guess what I'm referring to is that gap, right? The continuum only works sometimes, in the sense that sometimes you want to start something big, and you may not have the capital and you may not have the equity to do it.

Mr. Keith Martell: As I mentioned, there are three projects that I talked about. One of them was the significant investment of a first nations community in a hydro development project. They own 25% of four hydro dams in northern Ontario. They took part of their claim settlement for the land use and put that in as part of their equity, and they borrowed a couple of hundred million dollars. Today they have a project with a present value—not a future value of dollars, but a present value—of a billion dollars for a community of about 2,500 people.

The Moose Cree First Nation financed that through taking on a project that had a real partnership with Ontario Power Generation. They took a real piece of land that they effectively had equity in through their stake in the land claim, and they turned that into financing. I think their financing was in the mid-2% range for 17-year financing, because it was a real project that they had a real stake in and they could finance it through commercial purposes.

Mr. Mathieu Ravignat: That's a helpful example. Thank you for that.

Moving on a bit, certainly in the government there are some resources that already exist to address the fiscal responsibility on reserves. There are some programs there that are not performing particularly well. I'm thinking, for example, of the land management act. I don't know if you have some comments to help improve those programs that are there but don't seem to be functioning.

● (0955)

Mr. Keith Martell: In many communities, the land management act works very well. It provides more certainty around the first nation.

For example, when they're doing a land lease for a commercial development such as a strip mall in the community, instead of having to go to Aboriginal Affairs and Northern Development Canada and wait in a very long line to get approval from the minister for a project that he or she knows nothing about, frankly, they have the local authority to develop that land in a purpose that meets the needs of the community.

I see the land management act in very many circumstances working very well. It's a good example of putting the right mechanisms in place to allow first nations to do what they can do with the resources they have.

The Chair: Thank you very much.

Mr. Seeback, we have you again for the next five minutes.

Mr. Kyle Seeback: I want to go back to the issues of capital that I was talking about before. For example, could a first nation business try to get a loan such as, for example, an SBL, through the BDC or some of the federal government programs?

Mr. Keith Martell: No. SBLs don't work on reserve because of the security issue under the Indian Act.

Mr. Kyle Seeback: Is it the same issue with the Canada small business financing program?

Mr. Keith Martell: I think it's the same issue. I believe it is.

Mr. Kyle Seeback: Right. So when you talk about having programs that creatively allow you to get around the issue of not having any security for these loans, that is only there if they can access one of the programs you referred to. Is that correct?

Mr. Keith Martell: Or they have their own equity. For example, many of the first nations with land claims now have a capital stake in a trust and are able to support and sponsor their businesses for future development. They have equity.

Mr. Kyle Seeback: Yes, they have equity based on a different.... But an individual is not going to have the equity, by and large—

Mr. Keith Martell: Right.

Mr. Kyle Seeback: —and if they can't access one of these programs, then they are not going to have capital to be able to start up or expand a business. Is that correct?

Mr. Keith Martell: That's correct.

Mr. Kyle Seeback: What are your requirements in these existing programs for someone who wants to start a business? I take it that it's not 100%, that not everyone who applies is able to get it. You must have some parameters for who is eligible to get into those programs. What are those parameters? How do you make that determination?

Mr. Kevin Schindelka: AFIs, which began delivering the program on behalf of government about a year ago, have an analysis procedure they go through to try to nail down viability. If it is a viable enterprise, that's essentially a go-ahead. The client has to have minimal equity themselves and, with the additional support of client equity programming, if it becomes viable and they can accept the security position, the AFIs will provide the loan.

Mr. Kyle Seeback: Viability seems fairly subjective. I know that all of these types of things are subjective, even when you go to a bank. For those people who get into the program—I'm just using an umbrella term "the program", because I know there are many—what's the repayment rate or what's the failure rate?

Mr. Kevin Schindelka: The repayment efficiency rate on the AFI loans is 95%.

Mr. Kyle Seeback: So it's quite good.

Mr. Kevin Schindelka: Yes.

Mr. Kyle Seeback: Would you say that your screening of people who qualify is more or less or equally as stringent as for those going to a bank? Or is it less—

Mr. Keith Martell: No. It's different.

Mr. Kyle Seeback: I know it's different. It has to be. But would you say they're comparable?

Mr. Kevin Schindelka: Not really.

Mr. Keith Martell: They're similar.

Mr. Kyle Seeback: They're similar? So let's just go off on a tangent here. If a first nation business had equity and applied for a loan from a bank or applied for one of the programs, do you think the acceptance would be reasonably similar? I'm just trying to see—

Ms. Francine Whiteduck: I doubt it, because I think the banks look at things such as the experience that you're bringing to the organization, the—

Mr. Kyle Seeback: I'm trying to see if you're like the lender of last resort.

Ms. Francine Whiteduck: We are a lender of last resort.

● (1000)

Mr. Keith Martell: They are.

For example, if we get a loan that is marginal to qualify for our purposes, we may actually partner on some of those loans with an AFI. There are aboriginal capital corporations, for example, that we work with to bridge a client who is almost out of their system and almost into ours.

Mr. Kyle Seeback: Right.

Mr. Keith Martell: They may put in a little more of the risk capital and we may do the commercial loan and together it works. But our whole attempt, between the AFIs and ourselves, is to keep moving that business up the chain.

Mr. Kyle Seeback: I want to quickly go back to one of the comments you made in your statement, Mr. Martell. I found it very interesting. I recall that Ernie Daniels, when we had him here on March 12, was talking about Membertou First Nation saving—I'm trying to find it here, and I had it and now I've lost it—$140,000 a month.

The Chair: Unfortunately, Mr. Seeback, in your effort to find the information you required, we have run out of time. Maybe we'll have another minute or two for you later.

Ms. Hughes, the next five minutes are yours.

Mrs. Carol Hughes: Thank you very much.

I certainly think the First Nations Land Management Act is working fairly well for many first nations. I think the concern we've seen with the program is that not everybody has been able to buy into it at this point. I believe that's what my colleague was talking about with some of the concerns he had.

There's quite a bit that I want to discuss, but I don't think I'm going to have a lot of time.

Andrew Beynon, who is the acting assistant deputy minister for lands and economic development, was before us on February 24, 2015. He mentioned that "it may be useful to explore ways to strengthen the network of aboriginal financial institutions, including ways to promote their self-sufficiency, introduce additional capital, and have them act as a continuing source of financial literacy for aboriginal businesses and communities". In his remarks, he went on to say, "Pending the Department's findings, the Committee may wish to learn more about Indigenous Business Australia and its applicability for Aboriginal access to capital in the Canadian context."

Do you have some comments to make about Indigenous Business Australia and how that compares with us? Are there some things we can learn and consider? Do you feel that there's a way for the government to strengthen the network of aboriginal financing in promoting the self-sufficiency of introducing additional capital?

Mr. Keith Martell: We have spoken to representatives in a number of programs and aboriginal development organizations in other countries. Although we always have something to learn from other countries, the circumstances are always different.

Frankly, my experience of Australia is that a lot of their programs are sort of where our programs were in the seventies with first nations here in Canada, so it's hard to make a comparison. With respect to a lot of the representatives you talk to from aboriginal governments in Australia, you end up talking to a bureaucrat, frankly, so it's like the Indian agent situation.

It's hard to make comparisons even though they're doing some things that are more innovative than what we have here. Their structure around their aboriginal groups is quite significantly different from ours today.

Mrs. Carol Hughes: But he did indicate as well how we can "strengthen the network of aboriginal financing institutions" and how we can "promote self-sufficiency". Based on the fact that he's made those comments, I'm just wondering if there some recommendations that you would like to see going forward to the government as to how we can do that—because you are the key players.

Ms. Francine Whiteduck: One of the things we are starting to look at this year in a much more significant way than we have in the past is really the standards accreditation within the AFI network itself. We're looking at really increasing the capacities there and focusing on how they look at risk.

You could talk about some of the standards we use, Kevin.

Mr. Kevin Schindelka: This goes back to a question about the difference between an AFI and a conventional institution in approaching a deal. A conventional institution has a lower level of risk tolerance than an AFI because they have the cost of funds in addition to the cost of capital—or it becomes part of the cost of capital—while AFIs don't have a cost of funds at this point. They aren't borrowing. They're able to take on a greater level of risk than a conventional institution can.

Also, rather than being developmental, if a client doesn't have the on-tap knowledge to run a particular business but the concept is good, they will coach and mentor the client through the business development process. They're developing entrepreneurs and businesses or assisting in developing them. Our counterparts or peers in the conventional industry can't afford to do that. It's just too costly.

● (1005)

The Chair: Thank you very much.

We're now moving back to Mr. Seeback.

Mr. Kyle Seeback: I found what I was looking for. It was “$140,000 per month with...financing through the capital markets as compared to their previous loans through banks as retail” consumers, which was “enough savings to build one new house each month”. That was a summary of the transcript of what we heard from Mr. Daniels.

You seem to be suggesting that this isn't the sort of miracle that I perceived it to be when I was sitting at the committee and was quite impressed by it. Explain to me in a little more detail what you see as the problem with what they did, because I thought it was very innovative for them to be taking different streams of revenue and effectively leveraging them into something else. They were hoping that they could put more revenue streams into that, such as licensing and other stuff.

You seem to think this is not a good idea. Why is that?

Mr. Keith Martell: It works for municipal governments, provincial governments, and the federal government to take government-like revenues and use government bonds to finance infrastructure. That's what the fiscal institutions were created for, and they still have a place and a role to play in that part of the continuum.

What they have started to do, though, is take, as you said, commercial revenue—revenues from forestry leases and oil and gas and corner stores and bingo halls—and fold it into the bonds they're issuing. The problem with that is.... We're a commercial lender, and we do that every day all day long, and when you look at those kinds of businesses, you look at the capacity to repay, at the risk, and at the term of the loan. As I mentioned, the term is very important.

Effectively, what the FNFA is doing is rolling all of those revenues into one bond that is amortized over 30 years. In the example you gave, they talk about saving $140,000 a month, but when you actually put it into a spreadsheet and calculate it, a majority of their savings is coming from not paying the principal back.

Mr. Kyle Seeback: It's amortizing over a longer period.

Mr. Keith Martell: If you take five-year and ten-year loans and refinance them as 30-year loans and spread payment out over 30 years, your actual cost of borrowing, which is your interest, is really much greater. It's like taking—

Mr. Kyle Seeback: Right. It's like taking a mortgage on your house that's a 30-year mortgage.

Mr. Keith Martell: Exactly. The government is trying to convince people away from going into mortgages that are 50-year loans with 5% down. You don't want that, but you're encouraging first nations to go into 30-year bond financing with no money down and a 10-year fixed price. I don't know about you, but I think and I hope that in 10 years interest rates will be a little bit higher than they are today. We're at an all-time low. Banks like higher interest rates—I'm sorry.

Voices: Oh, oh!

Mr. Keith Martell: But we also pay depositors more money when interest rates are higher.

At the same time, what you're encouraging through FNFA is for people to be taking out big amounts of credit at all-time lows in interest rates and spreading the loan out over 30 years. There's no assurance that some of the assets being purchased with that 30-year money aren't the five-year assets. What are you going to do in five and ten years when the asset is depleted and there's no more revenue coming from it and you still have 20 years of loan to repay?

Mr. Kyle Seeback: That's an interesting point. Thank you.

I want to go back to the AFIs and how they lend. Is the interest rate for money loaned through an AFI going to be similar to that of a regular commercial bank? Is it lower, higher, or about the same?

Ms. Francine Whiteduck: It's higher.

Mr. Kyle Seeback: It's higher, and that's a reflection of risk, which is typical in banking. All right.

So when you say that the amount of money available to go out for loans has gradually been reduced over the years, that you have a 95% repayment rate, and that you have an interest rate that's higher than a commercial bank's, where has all that money gone? Presumably there's interest on repayment of principal and interest, so you have extra money coming back. Over time, wouldn't that build up a larger pool to lend? In effect, where did that money go?

• (1010)

Mr. Kevin Schindelka: No. A couple of years ago we appeared at this committee hearing, and at that time we were talking about the cost of capital and the yield that AFIs are able to obtain in the current market. The cost of capital exceeded the yield they could obtain, so —

Mr. Kyle Seeback: How does the cost of capital exceed when the money comes effectively from government revenues? What's the cost of capital there?

Mr. Kevin Schindelka: For cost of funds, there's zero cost of funds—we don't have to pay a depositor—but there is a cost of capital in terms of putting the loan out, pre- and post-care for the client, and collecting the loan, getting it back in.

Mr. Kyle Seeback: Right. So those are the costs of running—

The Chair: I'm sorry, Mr. Seeback. You've exceeded your time.

We're moving across now to Mr. Ravignat.

Mr. Mathieu Ravignat: Is it okay if I share my time with Carol? I only have a very quick question.

The Chair: Yes.

Mr. Mathieu Ravignat: We've talked a lot about capacity development. The answers I'm getting are that it's a problem and that there are some very limited ways of addressing the issue. I don't know if we could think a little more broadly as to what solutions we need to put in place to ensure that capacity development and what role the federal government can play.

Are there examples or models that are more successful than others? Has something happened in Kitigan Zibi, for example, a mentorship program or something, that could be used as a model? What role can the federal government play in that kind of education?

Ms. Francine Whiteduck: In terms of the capacity in the AFI network itself, the 58 AFIs that we do have are governed independently in their own region. They each have their own board of directors. When you look at them, you see that the AFIs themselves have different capacities. The ACCs tend to operate a little differently; a lot of the successes we're seeing are coming out from there. You also have the Community Futures Development Corporations. They need probably a little more capacity development, because of the nature of how they're structured, etc. That's why we're looking at the whole standards and accreditation issue for AFIs.

In terms of the programs to strengthen, it's not only the network but the people who we serve in the network. We are talking about financial literacy. We are talking about working with communities in a much more intense way to really bring that business education to the community at all levels, from kids in school to the people who want to start a business. There's a lot of opportunity there.

I know what you mean about Kitigan Zibi. There's much potential there.

But again, it's really about getting the understanding of how do we begin to animate all of this and the different structures that are required. It's an education process. It has to happen with the chief and council and other players in the community, as well as the private sector that is starting to develop in the community. I think that being clear on the roles that each has is a big part of the educational needs in the community. It's really hard to make that happen when you're able to finance maybe three or four businesses a year. It takes a much broader discussion, from governance to models that are available for communities.

In terms of some recommendations for the committee, it's really that we need to broaden the understanding of what is and is not working in the communities. I think we get a sense of it. We keep hearing about the finance authority in the first nations financial management act as one model, but it's not for everybody. To be honest, I don't know the extent to which that is subscribed and has pulled participants in, or the impact. We're just now starting to see the loans that are made under that model, but there are also alternate models, and we need to understand what they are and we need to assist the communities at the chief and council level to be able to put those into play and test them.

The AFIs come into the picture in working with the entrepreneurs and building that capacity there. There are a lot of different roles going on and that you see are required in the community. A number of players have to be animated, not just business lenders but the whole community.

That goes for both on and off the reserve as well. A lot of the businesses, if you look at them, or a lot of the activity in the community, is very concentrated in the band council because of its authority in the community and as the only legal framework that exists. How do you step out of that and broaden the access and the participation of a much greater segment of the community in order for them to be able to be owners and managers of the capital as well as the structures within their community? I think it has to be separated out a bit.

• (1015)

The Chair: Thank you very much.

We're moving back over to Mr. Seeback again. I keep stopping him, and he just keeps on coming right back. It's his turn again.

Mr. Kyle Seeback: If you hadn't interrupted me, Mr. Chair, I would have been done 15 minutes ago.

Voices: Oh, oh!

Mr. Kyle Seeback: Kevin, I want to get back to where we were finishing off. Basically what you're saying is that what I'm going to call the “overhead” of operations for AFIs in effect exceeds the revenues they get from interest on loans.

Mr. Kevin Schindelka: Yes. You call it “overhead” and we call it “administrative expenses”, and loan loss exceeds the revenue obtained from the loan portfolio.

Mr. Kyle Seeback: How does your funding work, then, for AFIs? Are there different baskets? Do you get *x* basket of funds for loans? Can you can take an amount of money per year and loan it out, and then there's *x* amount of money for operating costs? Or do you just get one amount of money, where they say “here's your money for loans”, and you figure out how to operate on a break-even or profitable basis?

Mr. Kevin Schindelka: Aboriginal capital corporations are left on their own. They don't get subsidized for operations, so a couple of years ago, we came up with a concept of a program that was introduced on April 1, 2014, and augments the revenue they receive and offsets the shortfall. For years, the shortfall has been 8% per year. Now we have a program that says if your AFI makes new loans, in addition to the rate you charge the client we will top you up with 8%, plus 5% to provide all the pre- and post-loan-care costs that you incur.

Mr. Kyle Seeback: Who's topping up?

Mr. Kevin Schindelka: A federal government program through AANDC is topping this up.

Mr. Kyle Seeback: I see.

Mr. Kevin Schindelka: It's unique in that it's not an entitlement program. It's an activity/performance-based program, the first of its kind in AFI country. If you don't make any loans, you don't get any ADLA or program dollars.

Mr. Kyle Seeback: Was it always this 8% loss? I forget the numbers. Are there not economies of scale? When you had $60 million to lend out, you still had an 8% loss, as you did with $25 million?

Mr. Kevin Schindelka: It's an average of 8%, really, and some of these AFIs have capital of $2 million or $3 million, while some have capital of $8 million or $10 million, so it's a moving target. They're also improving on their capacity and learning. They've gained a lot of ground in terms of developmental lending cost. They've reduced losses over the years, but the 5% that we talk about is a five-year rolling average.

● (1020)

Mr. Kyle Seeback: What's the largest component of what I described as overhead and you described as administration? Is that set salaries and benefits?

Mr. Kevin Schindelka: Yes, and provisions for loss.

Mr. Kyle Seeback: Okay.

I'll share my time with Mr. Strahl.

Mr. Mark Strahl (Chilliwack—Fraser Canyon, CPC): Just quickly, I wanted to get an understanding of how you deliver the programs on reserve.

Mr. Martell, do you have branch locations? Do you have people on the ground or is it a kind of virtual service that you provide?

Maybe this is for the AFIs as well. How are you delivering this to the entrepreneurs on reserve? Are they calling Ottawa or are they dealing with a real person in or near their community?

Mr. Keith Martell: We have eight full-service branches and four community banking centres. They're primarily in aboriginal communities or in centres where aboriginal business tends to congregate. The head office is in Saskatoon. We have a branch just outside of Meadow Lake in Mr. Clarke's riding. He was actually at our grand opening. We have real branches with real, physical people on the ground doing loans for personal and business purposes.

We also, of course, because of the business being spread out—it's a big country—have branches in every territory. We have branches in Yukon, Northwest Territories, and Nunavut. In many of those centres, we concentrate the commercial lending in a couple of commercial lending centres, but we have people who get out into those communities to do the work.

Mr. Mark Strahl: On the AFI side...?

Ms. Francine Whiteduck: There are 58 AFIs—aboriginal financial institutions—across Canada, so we cover almost all of Canada. NACCA has become the program manager on some of the government programs that were described earlier.

For instance, there's ADLA, the aboriginal developmental lending assistance program. We took that over last year. The AFIs will apply to NACCA. We will receive their financial statements over the last three years, and there are all the conditions that we require to provide the funding to see if they need it, and then we push that money out the door.

This year we're looking at the aboriginal business financing program, which is the equity program. It appears that NACCA will also be delivering that to the AFIs, which then work with the clients right across the country in providing them services.

Mr. Mark Strahl: Thank you.

The Chair: Thank you.

Finally, we have Ms. Hughes.

Mrs. Carol Hughes: I have just a couple of things.

You've said that there are things that work in some communities and that you basically have an idea of what's working and what's not. I'm wondering if you could forward that information to the committee. Or if it's that for certain communities this works, and for certain communities that doesn't work—because we know they're all very unique—I think that would be important for us to know.

I have a couple of quick questions. I'll leave them with you to answer, and then the committee can go on or choose to adjourn.

When the caisse populaire from Kahnawake came before us in June 2014, they talked about the fact that they have a procedure whereby the person uses "a trust agreement with trustees who are chosen members of our community, and transfers his or her immoveable property in trust to them". I'm wondering if that is used under your purviews as well.

The other piece I wanted you to comment on is that when Acting Assistant Deputy Minister Andrew Beynon was before the committee, he talked about "[n]ew and innovative ways of unlocking existing capital" that could probably be pursued, and he referenced the "$1 billion in Indian moneys currently held in the consolidated revenue fund". I'm wondering if you could comment on that as well.

Mr. Kevin Schindelka: With regard to the model Kahnawake uses, no, they're the only AFI in Canada that I'm aware of that uses that model. I don't know if it's ever been challenged in court.

● (1025)

Mr. Keith Martell: Actually, Kahnawake uses that for housing loans. It's their mortgage system. Effectively, they put the control of the home, the mortgageable asset, in the hands of a trust, which is a local community, and it would allow transfer of ownership if there were a non-repayment of loan. That program—in that community only—is available for any FI, any financial institution. It's a model of ensuring.... Really, banks don't want to own homes. We never want to own somebody's home. We really just want someone to end up paying back the loan.

There's that model, and there's also the first nations market housing program. We have our own first nations housing program, whereby a community really does the same thing that Kahnawake does. It gets behind the homeowner and ensures that if that homeowner can't pay or doesn't pay, or if there's a marriage breakup—a lot of instances require home sales—they will have a transfer to a new owner. We work with those kinds of programs. Those programs do work.

The first nations market housing program is a good one. It was created by the government, and it's working quite well in a lot of communities that want to work with it.

Mrs. Carol Hughes: What about the consolidated...?

Mr. Keith Martell: For the trust funds, those are the revenues, typically from non-renewable resources, that go into federal trusts. There are a number of lawsuits pending for a number of first nations who have.... Typically, the largest pools have about ten or twelve first nations, and it's mostly oil and gas revenue. Most of those have gone out to trusts managed by the communities; the larger ones are all being transferred out. That creates a legacy for the communities, as I mentioned. It does create a trust, and if the first nation manages it well and structures it correctly, it can be used as a vehicle to leverage the community's development, both the government development and the business development.

Our most successful customers are typically ones that have that kind of equity behind them. That's really what we're talking about here today. How do you build that equity, not just with those who have claims, but with the average first nation in remote areas or in northern Canada, or, even more importantly, with the average individual who lives in one of these communities and really wants to start a stake in a business and have it grow?

Mr. Kevin Schindelka: Most AFIs use the model to gain access to security. They'll obtain a band council resolution that enables or empowers the business owner to establish the business on reserve, and the second part of the BCR will enable the AFI access to the reserve to recover against assets of the business in the event of default. That's proven successful in court.

The Chair: Thank you very much.

That concludes our questioning for the day. I thank all of our witnesses for their help with our study. It's much appreciated.

We will suspend the meeting, because I do have one quick item of committee business. We'll have to clear the room in order to move in camera for that. Thank you.

[*Proceedings continue in camera*]