



SOCIAL FINANCE: UNLOCKING THE POTENTIAL OF DEVELOPMENTAL LENDING

An Impakt study into the potential of developmental lending
to address social and business challenges in Alberta



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ABOUT IMPAKT

Founded in 2001, Impakt helps corporations and not-for-profit organizations become social purpose leaders by assessing, improving and measuring the value of social investments and social programs.

For more information: impaktcorp.com



ABOUT INDIAN BUSINESS CORPORATION

Since 1987, the Indian Business Corporation – a developmental lender – has provided financing for First Nations peoples in western Canada. IBC believes that access to capital for First Nations peoples provides opportunities for success and economic development.

For more information: indianbc.ca

Acknowledgements

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We would also like to thank Statoil Canada for supporting this study. Statoil has a track record of piloting social innovations aimed at preparing local businesses and individuals to access contracts with industry, which in return provide industry with contract-ready local service providers.

We are grateful for the support of the Government of Alberta, which recognizes the potential of developmental lending to achieve socioeconomic priorities shared by communities, corporations and governments.

Other key informants were the Canadian Council for Aboriginal Business and the National Aboriginal Capital Corporation Association.

AltaGas Ltd. must also be recognized for its early leadership in establishing the AltaGas First Nations Development Fund within the Indian Business Corporation. This relationship came about during the writing of this paper and provided a vision for the practical approach to social finance referenced within.

Finally, thanks to Rob Rollingson, general manager at IBC. Rob's experience with conventional and developmental lending and sincere concern for individuals and communities achieving self-sufficiency make him a valuable resource for everyone concerned with unlocking the potential of social finance.

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If Canadian resource companies really want to do something valuable for Aboriginal people while securing their social licence to operate, they should provide capital for developmental loans. Trusted intermediaries like the Indian Business Corporation have shown that developmental lending is an effective way of bringing people into the resource economy, increasing self-sufficiency and community resilience.

– Brian Cardinal
President, Indian Business Corporation



Connie's Oilfield Lease Maintenance Ltd., Frog Lake Alberta

“TRUST ME I REALLY HAD A HARD TIME WHEN I FIRST STARTED.”

says Connie Saliwonzcyk, president and founder of Connie's Oilfield Lease Maintenance Ltd., based in Frog Lake, Alberta. “I was in business for nine years prior to getting financing. Back then I was cutting grass and pumping water, providing well-site maintenance. I started out very small on my own. I worked with child welfare and I saved my money and started buying my own equipment.”



Connie Saliwonzcyk

Connie has built a reputation for dependability and accessibility. Her clients appreciate that she is local, hires local employees, and is hardworking and quick to respond.

“Over the years of hard work, I watched as larger companies provided services like vac trucks. Eventually, I said to myself; why can't I provide services like that?”

“I wanted to expand from three inch water pumps to floating pumps. I wanted more equipment, like a vac truck to clean up spills. But it was a long struggle; probably a good five years and there was no hope with the banks for financing.

“Eventually I was introduced to Indian Business Corporation. I heard it was a company that lent money to folks living on reserve. I was the happiest person when they approved my application.

“My company today? It's growing; it's growing thanks to IBC. We employ four full-time, three part-time and ten to fifteen seasonal workers. It's just incredible.

“I run the company with my son and daughter. We run a strong crew of all women. People always know Connie's Oil Field Lease Maintenance Ltd. as a 'ladies' crew. They know we are women, they know we work hard.”

Ted Walker, another Frog Lake entrepreneur financed by IBC claims that Connie set the path he is now on. “Connie started a few years before me and that is where I plan on being in a few years. It's life changing for real. It's going from 'like I might lose my job this month' to having real security.”

“Starting a business” says Connie, “forces you to grow personally, to do your taxes, to keep records. It builds self-sufficiency better than any program I can think of.

“I was so proud of that first truck. The success I felt, to actually go and get it - I was literally in tears. And in the back of my head all I could think about was my Dad. He would have said 'I'm so proud of you.'”

“Personally I am proud”, says Connie's daughter Janine Weaver. “I see my Mom as a pioneer in this. I have a Diploma in Legal Administration, the Oil Patch is not where I wanted to be but my Mom struggled through it and made it possible for my brother and me to join the business. Now I am out here and I love it. She made it that much easier for me. Together I hope we can make starting a business easier for others.”

EXECUTIVE SUMMARY

Connie's story is just one example of how developmental lending can create economic opportunities for Aboriginal people while supporting the priorities of the private sector in Alberta. With a loan from the Indian Business Corporation (IBC) – a developmental lender – Connie was able to contribute to, and benefit from, the growth of the Alberta resource sector, while providing employment opportunities for her children and others in her community.

This report represents an important first step towards understanding the potential of developmental lending to improve socioeconomic conditions in Alberta's Aboriginal communities. Our research involved considering the current context for developmental lending, reviewing IBC's loan records, and consulting directly with IBC clients. Our research revealed four key findings:

1

There is a growing gap between the need for high-value industries in Alberta to engage more Aboriginal suppliers and the financial resources needed for Aboriginal people in the province to become entrepreneurs;

3

Over the past 27 years, IBC has fostered a “made in Alberta” approach that helps Aboriginal people become successful entrepreneurs, transforms the lives of families and communities and supports the needs of industry;

2

As a result, opportunities for meaningful socioeconomic development within Aboriginal communities remain limited and businesses run the risk of incurring higher costs and jeopardizing their social licence to operate;

4

Despite evidence of the business and social value of developmental lending, industry has not yet embraced this approach and the the pool of available loan capital in Alberta remains inadequate.

We believe that the gap between supply and demand for loan capital is a missed opportunity for industry, governments, and importantly Aboriginal individuals and communities. In response, there is a sound argument for resource companies and governments to make more loan capital available to Aboriginal entrepreneurs in Alberta. With support from industry and government, Alberta's developmental lenders could meet growing client demand, while helping corporations secure their social licence to operate.

Growth in Alberta's resource sector has driven the Canadian economy, stimulated employment, and fostered much prosperity, including among Aboriginal entrepreneurs. Many First Nations are located close to important areas of resource extraction, and corporations have recognized the potential for Aboriginal entrepreneurs to support business objectives. The Government of Canada has made Aboriginal business a priority by developing a Procurement Strategy for Aboriginal Business, supporting the Aboriginal Business Development Program and positioning entrepreneurship prominently in the Federal Framework for Aboriginal Economic Development. Policies such as the Alberta Competitiveness Act are helping Aboriginal people play a meaningful part in the provincial economy.

Despite growth of the resource sector and many shared interests, there are still proportionally fewer Aboriginal entrepreneurs than non-Aboriginal entrepreneurs. The reported self-employment rate for First Nations individuals on reserve is substantially lower than for those living off reserve.¹ In Canada's most prosperous

province, Aboriginal people continue to experience more income inequality and worse health and social outcomes than other Canadians.² Increasing Aboriginal involvement in the resource economy through entrepreneurship is one way to improve these disparities.

A major barrier to increasing Aboriginal entrepreneurship is the lack of capital available to start new businesses or grow existing ones. Many Aboriginal people living on reserve lack collateral, borrowing history, or sufficient financial records. As a result, mainstream lenders consider Aboriginal people to be high risk. While resource companies are seeking more participation by Aboriginal people, and the demand for local suppliers and employees is expected to continue to increase, most companies do not have the inclination or the capacity to lend directly to entrepreneurs, nor should they be expected to.

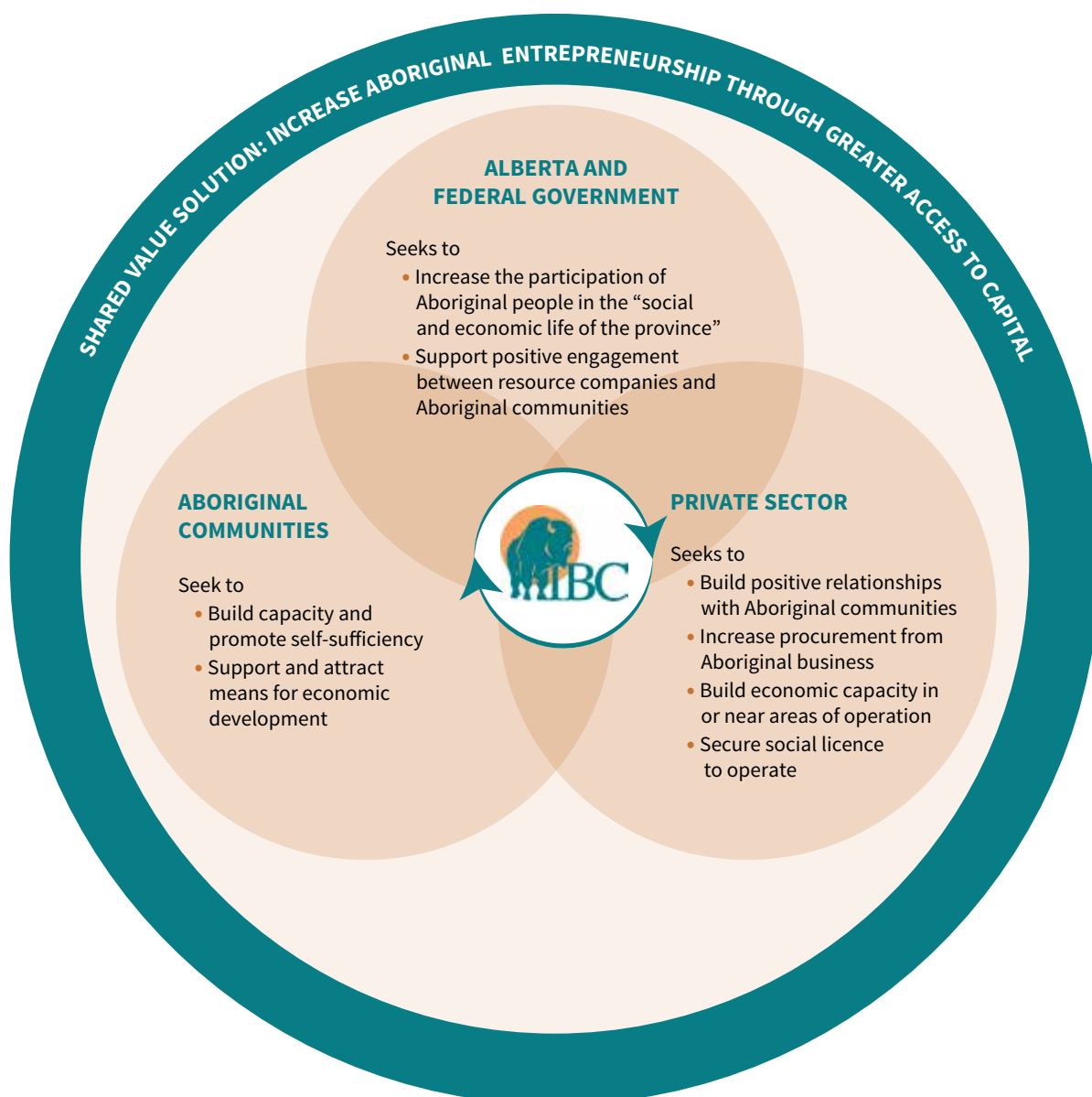
Closing the gap between industry's need for more participation by Aboriginal people and aspiring entrepreneurs' demand for business loans presents an ongoing challenge. "Access to capital" is commonly identified as the biggest constraint to stimulating local businesses, keeping capital within the local economy, and increasing long-term economic sustainability and resilience.

The situation is complex: Aboriginal communities have differing degrees of readiness for new business growth, awareness of developmental lending remains low, and most corporations have never worked with developmental lenders and may not understand that the solutions they offer are viable ones.

This report serves as a starting point by offering a model for how the Government of Alberta, the business sector, Aboriginal communities, and developmental lenders such as IBC can work together to mobilize capital in support of Aboriginal entrepreneurs working in Alberta’s resource sector.

The pages that follow provide the context for developmental lending, establish reasons why it is an effective way to address socioeconomic priorities that Aboriginal people and industry share, and features and overview of IBC’s 27-year history as a developmental lender in Alberta.

Developmental lending through IBC



UNLOCKING THE POTENTIAL OF DEVELOPMENTAL LENDING

Developmental lending: a global context

There is a global move to address poverty and underdevelopment with financial or market instruments, such as social impact bonds, social enterprise, and developmental loans. Underpinning this shift is a commitment by governments and corporations alike to broad-based economic growth as being essential to sustainable, long-term development.

[Developmental lending] creates the opportunities impoverished households need to raise their living standards, provides countries with the resources to expand access to basic services, and – most important of all – enables citizens to chart their own prosperous futures.³

This marks a departure from traditional approaches to development, such as direct aid and philanthropy. The U.S. Agency for International Development has championed economic development and trade as essential tools for tackling poverty, including:

- **Working with private-sector companies to spur economic development** so that citizens can participate in a vibrant economy that allocates resources wisely
- **Encouraging local channels of financing** to empower entrepreneurs in developing countries to improve their lives and shape their own futures

The goal of this approach is to “help build new markets by expanding trade and supporting the emergence of middle-class consumers that can buy U.S. goods and services, with the belief that stable economies are less vulnerable to crises.”⁴

Finance for development



The Government of Canada has also signalled its commitment to this approach by transferring what were once the responsibilities of the Canadian International Development Agency to Foreign Affairs, Trade and Development Canada. This has given rise to the engagement of Canadian resource companies as important new actors in creating social value in regions where resource extraction is taking place.

In developing countries, the role of microfinance and micro loans is well understood, and these financing methods are a mainstream approach to helping poor people start businesses, encouraging them to be self-sufficient and having the goal of lifting them out of poverty. In Canada, the use of this approach is just beginning. Given that Aboriginal people here face socioeconomic

challenges and that many global companies are working in Canada's rural and remote regions, a strong case can be made for using a similar approach in Canada.

A Canadian equivalent of microfinance can be found in the lending activities of Aboriginal financial institutes, such as IBC, that provide developmental loans to Aboriginal entrepreneurs. The parallel to the international context is extended further when the potential of developmental loans made in areas of resource development is considered.

Traditional roles and responsibilities

While it is the government's responsibility to consult and accommodate communities in which resource development is taking place, aspects of this responsibility are often delegated to the resource companies themselves. In response, most resource companies operating in the Alberta resource sector have established Aboriginal relations departments, charged with the task of consulting and accommodating communities in areas slated for development. Much has been done in the name of building positive relationships with communities (e.g., corporate social responsibility, community investment, stakeholder relations), but the actual value of these efforts is difficult to measure and is increasingly questioned.

Industry has both a challenge and an opportunity to find more effective ways to establish high-value relationships that expand local participation in the resource economy while reducing a range of business risks. Developmental lending offers a promising approach – one that provides the private sector with an opportunity to have a positive and measurable socioeconomic impact.

Pursuing more social and business value

Companies operating in Alberta's resource sector are increasingly placing priority on building business relationships with local Aboriginal communities. The business advantages of doing so include access to land and local labour and contractors, faster approvals, lowered risk, and so on.

THE RISK OF TRADITIONAL COMMUNITY INVESTMENT

Companies with a charitable mindset that pursue community investment (e.g., facilities, training centres, museums) frequently encounter a range of long-term risks. When a company fails to achieve its promise of improved socioeconomic conditions, the community investment the company made stands as a reminder that it could not deliver positive social change.

Recent court decisions related to resource development have influenced the tone of relationships between industry, governments, and Aboriginal communities.⁵

The result has been a growing imperative for resource development companies to establish more value through their relationships with their supply partners, local governments, and individual business owners. In instances where this is not the case, the company's social licence to operate has been called into question, often resulting in delays, added expense, and in some cases the cancellation of a development project.

While the business case for better community engagement and accommodation has been made clear, the best approach for doing so is less clear. Statoil and Shell, two global energy companies, have both established business incubators in partnership with First Nations partners on reserve. The intent of the business incubator is to help foster small businesses, from inception to the creation of business plans and other supports. While both Statoil and SUNCOR have been praised for their approach, neither effort has included a financing component for small business.



Almost a third (31%) of Alberta's Aboriginal population is under 14 years of age.



Of the 150,000 businessness operating in Alberta, more than 95% are small or medium sized businesses.



Alberta has 50.3 small & medium enterprises (SMEs) per 1,000 inhabitants.



Owners of SMEs in Alberta anticipate approximately 10% growth in 2014.

The unrealized potential of Aboriginal businesses

The Aboriginal population in Alberta is among the youngest in the country and is growing faster than the general population. Almost a third (31%) of the province's Aboriginal population is under 14 years of age, whereas 19 percent of the non-Aboriginal population is in that age group. Half of all Aboriginal people living in Alberta are children and youth under 24 years of age. Nevertheless, Aboriginal people continue to be underrepresented in Alberta's workforce.

Across Canada, the number of Aboriginal business owners and entrepreneurs is growing at a rate that far exceeds that for self-employed Canadians overall. The magnitude of small business within the Alberta economy is undeniable – of the 150,000 businessness operating in Alberta, more than 95% are small or medium sized businesses.⁶

- Compared with other Canadian provinces, **Alberta and Saskatchewan have the highest number of small and medium enterprises (SMEs)** relative to the total working-age population (15 years old or older): 50.3 SMEs per 1,000 inhabitants in Alberta and 47.8 in Saskatchewan.
- Saskatchewan ranks first in terms of the proportion of high-growth SMEs (13.2%), followed by **Alberta (9.3%)** and British Columbia (9.2%).
- **Owners of SMEs are optimistic for their growth in the current economic environment;** in Alberta these owners anticipate approximately 10 percent growth in 2014.⁷



Almost 4 in 10 Aboriginal business owners create jobs for others, Aboriginal & non-Aboriginal people alike, and most hire full-time permanent workers, as well as part-time & casual labour.

Given the important role of SMEs in Alberta and the growing priority for increased engagement of Aboriginal communities in the resource economy, the Government of Alberta has established a mandate to increase participation by Aboriginal people in Alberta's workforce and economy.⁸

Recent federal and provincial legislation indicate the priority on growing Aboriginal businesses:

- **The federal Procurement Strategy for Aboriginal Business (PSAB)** aims to increase federal contracting opportunities for Aboriginal businesses, and improve their access to the overall federal procurement process, including procurement commitments (e.g., set asides) negotiated through impact benefit agreements between companies and communities as part of the community consultation and accommodation process.
- **The Government of Alberta through its Competitiveness Act** seeks to work closely with industry, business leaders,

and communities to ensure Alberta increases its competitive advantage within Canada and the global economy. Its focus on partnership may be a timely opportunity for the province and First Nations to come together on projects that benefit everyone.⁹

Clearly, thriving Aboriginal businesses, especially those related to major resource development, benefit not only the individual entrepreneurs but also the communities in which those businesses operate and the companies that employ local services – that is, the whole of society. Almost 4 in 10 Aboriginal business owners create jobs for others, Aboriginal and non-Aboriginal people alike, and most hire full-time permanent workers, as well as part-time employees and casual labour. Almost all have at least one Aboriginal employee and consider the development of employees' skills important. Like other small businesses across Canada, Aboriginal businesses create employment, economic prosperity, and social well-being.

Lack of access to capital

Supporting the development of businesses owned by Aboriginal people is increasingly seen as a promising approach to building self-sufficiency and prosperity in Aboriginal communities. As economic opportunities increase through “court judgements, land settlements, new revenue sources, the new economy, resource development and export markets,”¹⁰ so does the incidence of Aboriginal entrepreneurship. But, as the National Aboriginal Capital Corporation Association (NACCA) notes, the rapid growth of entrepreneurship “is generating increased demand for both debt and equity capital.”¹¹

Despite an increased demand for finance and a commitment from traditional financial institutions to provide services to Aboriginal people, many – particularly those on reserves – remain alienated from mainstream sources of capital. Business owners may lack the traditional assets needed for adequate loan security. Further, due to section 89 of the Indian Act, “banks are reluctant to provide financing to First Nations given the issues around security and rights of seizure resulting from the restrictions placed on the use of property as collateral.” Given the lack of alternative options for obtaining capital, these barriers to Aboriginal economic development can be insurmountable.

Recognition of Aboriginal financial institutions

One of the best solutions to address the lack of available capital for Aboriginal entrepreneurs is through Aboriginal Financial Institutions (AFIs). The Government of Alberta has recognized the important role of developmental loans made by AFIs, such as Indian Business Corporation, the Alberta Indian Investment Corporation and

Apeetogosan (Métis) Development Inc. In the 2010 report of the MLA Committee on the First Nations, Métis and Inuit Workforce Planning Initiative – titled *Connecting the Dots: Aboriginal Workforce and Economic Development in Alberta* – Alberta-based Aboriginal capital corporations were mentioned for their role as developmental lenders, business services providers, and facilitators of economic development.¹²

IBC defines developmental lending as

- **providing financial services** (primarily loans) to Aboriginal people who, for a variety of cultural and/or financial reasons, are alienated by mainstream lending institutions (e.g., chartered banks, trust companies, credit unions);
- **approving loan applications** on the basis of typical financial considerations while taking into account the potential for positive social or community outcomes; and
- **evaluating social outcomes** resulting from the loan portfolio over the long term.

Shared priorities, shared solution

The needs of industry (e.g., securing a social licence, reducing business risk, engaging a local labour force and suppliers) and the challenges that rural Aboriginal communities face (e.g., unacceptable rates of unemployment and poverty, low secondary school completion rate) can be met through an increased support for developmental lenders such as IBC.

INDIAN BUSINESS CORPORATION: BEST-PRACTICE DEVELOPMENTAL LENDING

IBC has successfully practised developmental lending in Alberta since 1987. The company – owned by the three treaty areas of Alberta (treaties 6, 7, and 8) – is a financial institution first, tailored to meet the specific needs of Aboriginal entrepreneurs. Developmental lending, however, is more than a financial transaction. Clearly, IBC is a social business, one that expects positive social outcomes from its financial activities and whose main organizational goals go beyond those of mainstream or commercial lenders. IBC six main goals, which are discussed in detail below, are as follows:

- | | |
|--|---|
| <p><u>1</u> Providing Aboriginal entrepreneurs with access to capital</p> | <p><u>4</u> Increasing the prosperity of individuals and communities</p> |
| <p><u>2</u> Expanding IBC's service</p> | <p><u>5</u> Supporting employment</p> |
| <p><u>3</u> Being a good developmental lender</p> | <p><u>6</u> Building positive relationships within communities</p> |

In its developmental lending, IBC targets the needs of rural and reserve-based small businesses and applies its particular expertise to helping individual entrepreneurs. IBC recognizes that creating more access to finance promotes thoughtful planning by all actors, and is starting to track how this

contributes to sustained community economic development. The reality and the frustration for IBC, however, are that 95 percent of its base of capital is deployed at any given time. As a result, viable Aboriginal businesses go without finance, and the many benefits previously discussed are not achieved.

So much of the research related to Aboriginal business innovation and entrepreneurship lumps together all actors (e.g., governments, community, the private sector). Report after report has the same conclusion: access to capital is a constraint to realizing the potential of Aboriginal business. Ways must be found to broaden and facilitate access to capital. One conclusion became clear as a result of this study: greater access to capital must include access to capital for developmental lenders so that they can in turn, make capital available to Aboriginal entrepreneurs and evaluate the social outcomes that result from doing so.

The aim of this study is to increase understanding of how more capital can be made available to Aboriginal entrepreneurs – particularly those seeking to participate in Alberta’s resource economy. The following six sections of this report draw on the experience of Indian Business Corporation to illustrate how Aboriginal finance institutes make capital available to Aboriginal entrepreneurs.

1. PROVIDING ABORIGINAL ENTREPRENEURS WITH ACCESS TO CAPITAL

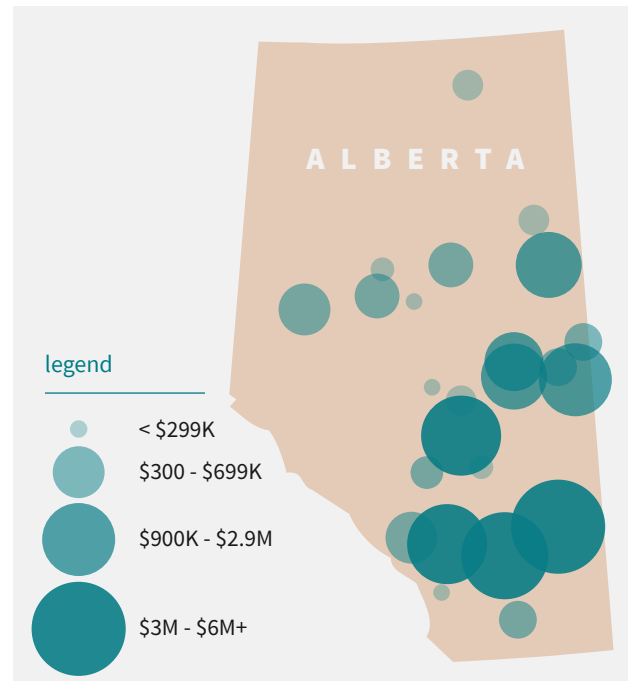
IBC’s core goal is to provide Aboriginal entrepreneurs with access to capital so that they can create new businesses, or maintain or expand existing ones. The social benefits of Aboriginal entrepreneurship will never be fully realized if sufficient capital is unavailable to Aboriginal entrepreneurs.

BETWEEN 2005 AND 2013, IBC DISBURSED APPROXIMATELY \$32.6 MILLION (SEE FIGURE 1) TO 382 ABORIGINAL INDIVIDUALS AND COUPLES.

FIGURE 1 IBC DISBURSEMENTS 2005–13



FIGURE 2 IBC DISBURSEMENTS ACROSS ALBERTA SINCE 2005



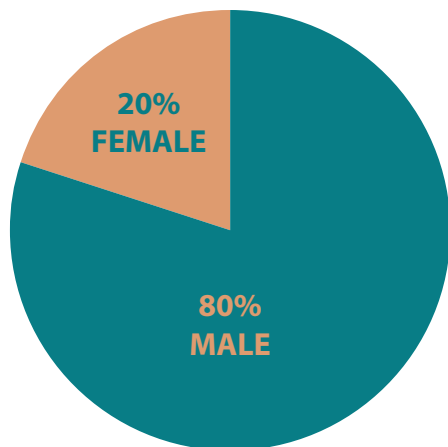
Geography

Since its inception, IBC has lent money to clients across Alberta. Figure 2 shows IBC’s disbursements across Alberta since 2005.

Demographics

Developmental lenders seek to improve access to capital for all First Nations, including subgroups that may be at a greater disadvantage. Our research sought to answer the question, who are IBC’s clients?

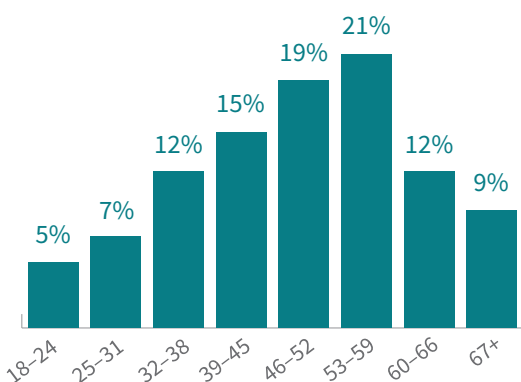
FIGURE 3 PERCENTAGE OF MALE AND FEMALE CLIENTS, BASED ON IBC'S CURRENT LOAN PORTFOLIO



First Nation women play an important role in the creation of small businesses in Alberta. IBC currently has over \$2 million lent out to 25 Aboriginal women. While we are proud to support First Nation women entrepreneurs, clearly the lack of capital is a significant barrier in assisting this group to reach their full potential.

– Rob Rollingson, IBC general manager

FIGURE 4 IBC LENDING BY AGE RANGE, BASED ON IBC'S CURRENT PORTFOLIO



FEMALE ENTREPRENEURS

According to Aboriginal Affairs and Northern Development Canada, female Aboriginal entrepreneurs are “starting businesses at double the rate of Canadian women generally.”¹³

Despite this, Aboriginal women, on average, are less likely to own businesses and have worse social outcomes than Aboriginal men or non-Aboriginal people.¹⁴

This disparity illustrates the need to actively engage female entrepreneurs in business. Currently, 20 percent of IBC’s portfolio is lent to Aboriginal women (see figure 3).

AGE

IBC lends to clients across a wide age range. Many IBC clients are within the 46 to 49 age range (see figure 4); this is in part because IBC gives preference to applicants who have demonstrated sector experience or work history. Of the clients interviewed during our research, most mentioned the importance of sector experience. As well, personal savings are the most common source of finance for business start-ups, but a lack of personal savings may prevent younger individuals from starting their own businesses.

IBC has a specific fund dedicated to promoting youth entrepreneurship. The small loans disbursed from this fund allow young entrepreneurs to build credit, learn business skills from more experienced friends and family, and take on responsibility with an appropriate level of risk.

CLIENT ATTRIBUTES

IBC provides tailored support to diverse clients whose circumstances vary. According to our research, when they apply for funding many of IBC's clients have a stable income or employment, either through their own business or through work in their community. Only a few clients reported unstable employment or income at the time of application. Over half of IBC's current clients have good credit; the remainder either have no credit or credit challenges. For many of the latter, lower credit scores were a result of unpaid cell phone or credit card bills. Before approving loans, IBC often requires clients to settle their debts or make arrangements to pay them.

Other common strengths of approved applicants include having sector-related experience, support from the community, a co-signer for a loan, and demonstrated entrepreneurial skills (e.g., financial records, business plans, work guarantees).

The diversity of IBC's clients indicates that entrepreneurs vary in many ways; a prototypical entrepreneur does not exist. This suggests that IBC's lending approach is flexible enough to accommodate a range of client needs and circumstances. IBC's client-centred approach (which includes client calls, site visits, and ad-hoc business support) mitigates against client attributes that may pose too great a risk for traditional financial institutions.

Yes I have had a few younger people approach me. They want to know how [to start a business]. My first advice ... to them is get involved. Get involved and work in that field that you are thinking of. You have got to know it; you have got to understand it. Then get into business. – IBC client

IBC's access to loan capital

Our research clearly indicates that IBC is improving access to capital for a range of Aboriginal people in Alberta. IBC's lending capacity, however, is limited by its own access to loan capital. In 2011, IBC lent nearly \$7 million dollars (see figure 1), nearly \$3.3 million more than in 2013. IBC received a large loan payout in 2011, thereby increasing the amount of capital available to lend. The corresponding increase in disbursements suggests that IBC is not limited by its organizational capacity or the demand for loans, but rather by the funds it has available to lend.

2. EXPANDING IBC'S SERVICE

IBC endeavours to expand its service across Alberta to more individuals, communities, and sectors. Although IBC's current loan portfolio is diverse, the company recognizes that an opportunity exists to expand service and build relationships in communities where it has been less active.

An important facet of expanding service is understanding how IBC attracts clients. According to our research, many clients of IBC were referred to it by a friend, a family member, or a leader in the community. Historically, when IBC lends money in a community where it has not done so before, demand for loans in that community increases in subsequent years. This is consistent with the feedback we received from interviewees in Frog Lake First Nation: when an Aboriginal person establishes a

successful business, other members of the community become interested in pursuing entrepreneurial opportunities for themselves. This suggests that IBC can effectively expand its service by locating clients who will extol the benefits of entrepreneurship.

IBC's ability to expand its service, however, is contingent on IBC having sufficient access to capital to meet entrepreneurs' growing demand for financing.

3. BEING A GOOD DEVELOPMENTAL LENDER

As a financial institution, IBC must practise sound and effective lending. Responsible lending ensures that IBC can remain a competitive and sustainable source of capital for Aboriginal entrepreneurs. Importantly, IBC relies on its loan interest income to achieve operational self-sufficiency. This ensures that operational costs do not erode the loan capital, thereby maximizing the capital available to lend. The following indicators suggest that IBC is operating in accordance with its mandate by using its resources to the fullest:

- IBC commits 92 percent of its capital to the business of lending, whereas other lenders in the AFI network commit on average only 52 percent.
- IBC's income arising from loan interest and investments is nearly three and a half times greater than the average income for other lenders in the AFI network.
- IBC's annual draw on government funding is less than one-third of the average draw of other lenders in the AFI network.

IBC's SEVEN-STEP DEVELOPMENTAL LENDING PROCESS

1. IBC receives paper applications from First Nations individuals who want to start or expand a business.
2. A loans manager meets with the applicant to assess the strength of the loan application and viability of the business opportunity.
3. Based on the outcome of the interview, the loans manager conducts a thorough review of the applicant, including a credit check.
4. The loans manager submits his or her recommendation to the general manager, who reviews the application and makes approvals accordingly.
5. If a loan is approved, the loans manager meets with the client to review the conditions of the loan.
6. Funds are released, in exchange for security, typically at a 12.5% interest rate.
7. Loan managers maintain ongoing communication & provide after care for clients as well as ongoing monitoring and evaluation of business and social outcomes.

A tailored approach

Developmental lending entails a higher degree of risk than does traditional lending. While write-offs are anticipated, IBC strives to hold loan loss to a maximum of 3% of its annual operating revenue. Wherever possible, IBC seeks to provide solutions that keep borrowers on track while protecting the effectiveness and integrity of IBC's business. This client-centred approach is based on effective two-way communication between IBC staff and clients. IBC supports its clients through regular calls and semi-annual site visits. As well, IBC is flexible with respect to the needs of its clients, recognizing that there is no "one-size-fits-all" approach to developmental lending. As part of its flexible lending approach, IBC endeavours to make quick but informed decisions about loans so that entrepreneurs can take advantage of business opportunities in a timely fashion. While IBC's business risk would be considered too high for a commercial lender, its approach to lending mitigates risk and ensures the company and its clients have the best possible chance for success. When clients are successful, the social benefits of increased entrepreneurship arguably exceed the risk of developmental lending.

4. INCREASING THE PROSPERITY OF INDIVIDUALS AND COMMUNITIES

To be engaged in developmental lending is to be engaged, through business, in improving economic and social outcomes for individuals. IBC's remaining goals relate to the capacity, stability and self-sufficiency of Aboriginal individuals and communities.

Indications of increased prosperity

On IBC's presence in the community: "It builds the community, I think. Personally, I don't think a little bit of competition has ever hurt. It makes people more ambitious." – IBC client

I do see our community supporting small business within [it], because we help electricians and plumbers and contractors, small time contractors ... When I need an electrician, I hire an electrician from the reserve. When I need a plumber, I hire the plumber from the reserve ... We always try to encourage everybody. – IBC client

The data that IBC currently collects suggests that its approach to lending positively affects individual prosperity. For example, IBC's current loan portfolio indicates that 51 percent of clients have had at least one previous IBC loan. This shows that IBC clients are successfully paying off their loans and coming back to IBC for additional financing. Those who are able to successfully grow their business are supporting the prosperity of others through employment: many of IBC's clients employ Aboriginal people from their own community. For example, 21 percent of clients in Frog Lake who have IBC loans employ at least one person other than themselves. By creating new revenue sources and supporting employment, IBC is encouraging individual prosperity and helping individuals support their families. An IBC client gave us another example of how economic development and individual prosperity can radiate throughout the community:

Defining prosperity

On owning a business: "You take stuff more seriously. Not just that but [life] got way better. You can't imagine owning your own truck or having your own business. One of my friends, he doesn't work for me [directly], but I got him a job. It snowballs." – IBC client

Prosperity is traditionally measured through economic indicators; however, prosperity can be defined more broadly to include measures of quality of life. An individual may not define prosperity by an accumulation of wealth. A more holistic view of prosperity allows for individual and cultural priorities to be valued equally.

5. SUPPORTING EMPLOYMENT

I do see a lot of people that have gone through IBC to start their own business ventures ... our unemployment rate on our reserve is so high, I think a lot more people are looking to run their own business.

– IBC client

In the last 20 years, economic outcomes for Aboriginal people have improved. Despite this, Aboriginal people in Canada have higher rates of unemployment and lower incomes than non-Aboriginal people.¹⁵ Many people in the federal and Alberta governments, the private sector, and Aboriginal communities are seeking opportunities to support Aboriginal employment,¹⁶ and entrepreneurship is increasingly seen as a favourable option for improving Aboriginal employment. IBC puts priority on supporting Aboriginal employment through lending.

The five year success rate of AFI-supported SMEs has, through an AFI pilot study, supported by a search at the Business Register Statistics Canada, been determined to be 58%.

– NACCA 2010 AFI Federal Government Job Cost Efficiency Analysis¹⁷

NACCA employment indicators

As part of their annual reporting to NACCA, AFIs report the number of jobs they create and maintain. Using the NACCA methodology, IBC reported that, since 2008, it has created 364 jobs and maintained 137.¹⁸ For the purposes of our research, we modified the NACCA methodology, placing less emphasis on job creation, and calculated the degree to which IBC supports sustained employment.

Loans to start-up businesses versus existing businesses

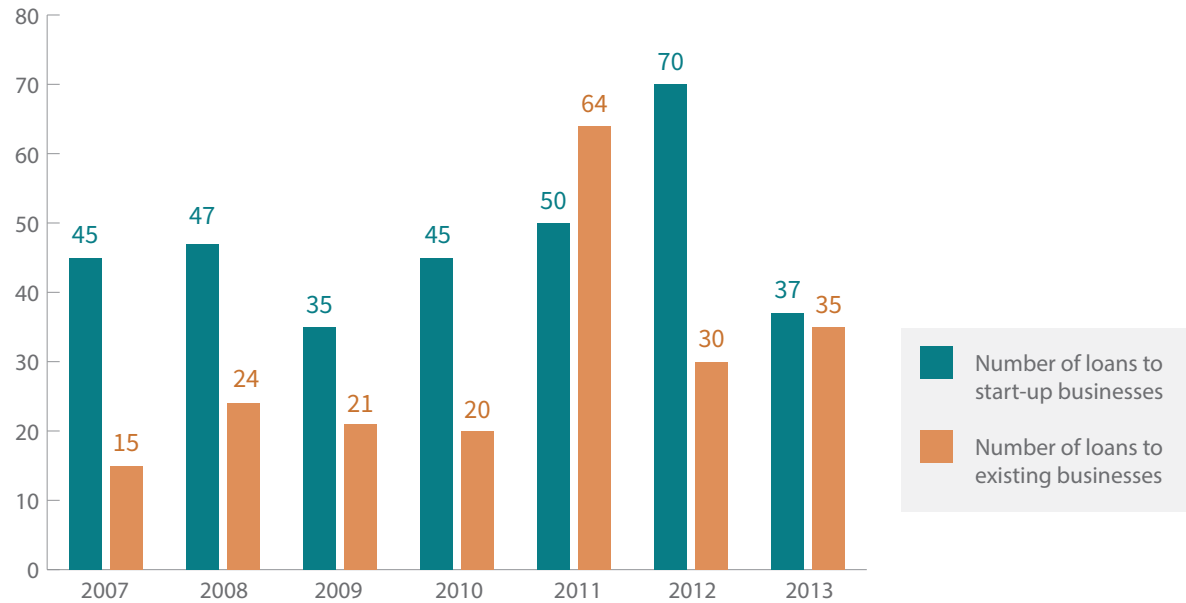
IBC's lending falls into two categories: loans to start-up businesses or loans to existing businesses (see figure 5). Loans that fall into the latter category are often sought by clients who have received multiple loans from IBC. Both types of lending are important. A high percentage of loans to start-up businesses suggests that IBC is providing access to capital to a diverse group of individuals. Conversely, a high percentage of loans to existing businesses suggests that clients are seeking capital to grow their business, which could result in increased employment and prosperity.

This distinction affects IBC's impact on employment. Providing loans to start-up businesses almost certainly creates employment, even if only in the form of part-time or seasonal positions. Lending to existing businesses may have various effects. For example, if an existing oil service company uses a loan to purchase a vacuum truck, a job is created; however, if the company uses

the loan to repair a truck, a job is not created but is maintained. On the basis of an analysis of IBC’s loans, the inference can be made that IBC is certainly supporting employment.

To understand how many jobs are created or for how long jobs exist, we developed a methodology to apply to IBC’s loan portfolio in Frog Lake First Nation and area.

FIGURE 5 IBC LOANS TO START-UP BUSINESSES VERSUS EXISTING BUSINESSES



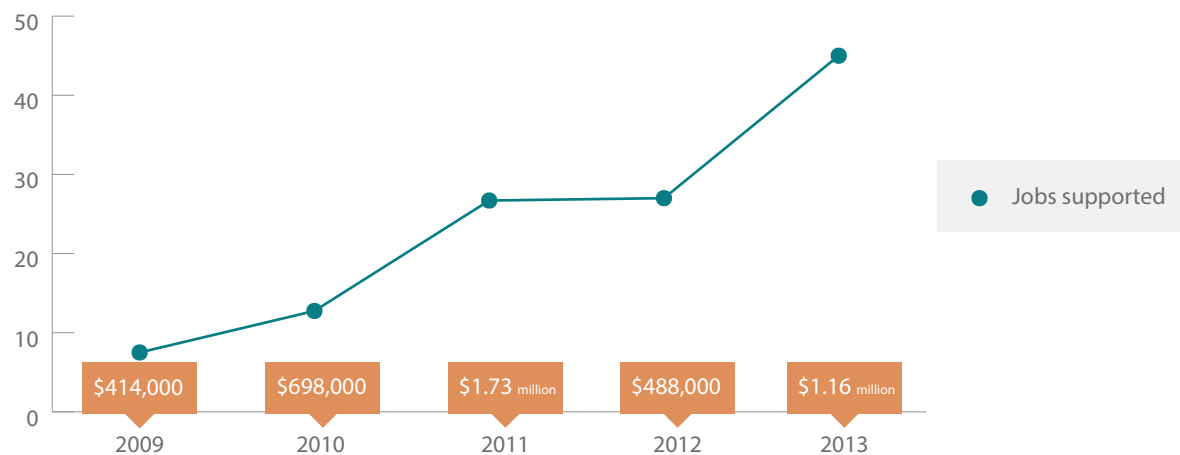
A case study on employment: Frog Lake First Nation and area

FROG LAKE AND AREA FACTS:

- 109 loans, to 67 individuals and couples;
- 5.6 million in IBC disbursements between 2005 and 2013;
- average unemployment rate in Frog Lake and area 19.5% (of 2,500 individuals over 15 years of age in Frog Lake and area).

We sought to determine to what extent IBC is supporting employment through its loans by building a case study on employment in Frog Lake First Nation and area. For this case study, we included loans made to the following First Nations: Frog Lake First Nation, Saddle

Lake Cree Nation, Chipewyan Prairie Dene First Nation, Cold Lake First Nations, Whitefish Lake First Nation and Kehewin Cree Nation. Currently, IBC collects information on the number of jobs it *estimates* it will create by approving loan applications. While the estimate may be accurate, in many circumstances a loan might create less, or even more, employment than predicted. For example, a business owner may lose a contract for work, have difficulty finding and keeping employees, or become ill. Conversely, a business owner may find that his or her business grows quickly and therefore more employees are needed than were projected at the time of applying for a loan. In short, anything can happen!

FIGURE 6 NUMBER OF JOBS SUPPORTED BY IBC LOANS IN FROG LAKE FIRST NATION AND AREA

We reviewed all of IBC’s loan records from Frog Lake First Nation and area in an attempt to estimate how many jobs had been sustained over a five-year period. IBC loan officers conduct semi-annual site visits to each of IBC’s clients and document these visits in reports. On the basis of the information in loan officers’ reports, we were able to estimate how many people a business owner employs.

Our estimates are very conservative. First, we were able to track only whether a job was sustained as long as the loan remained open. When a loan has been paid off, site visits and the reports on them cease. Second, we made an effort to count only those jobs that IBC directly supported. In some cases, IBC’s clients employed more people than we recorded in our job count. Figure 6 shows a conservative estimate of the number of jobs IBC has supported (i.e., created or maintained) since 2009.

The dollar figures in the graph indicate the disbursement amount for the corresponding year. A correlation between disbursements and jobs supported cannot be assumed. IBC lends money to a number of sectors and for a number of purposes; therefore, there is a great deal of variation in the “price of a job.” Furthermore, if IBC makes a loan for the purposes of business expansion, the loan may not create a job directly but does increase a client’s chances for success and increased prosperity, which in turn could lead to increased employment.

During our interviews, more than one client emphasized that employment figures are only part of the story. While we estimate that IBC supported 45 jobs in 2013, many of the people in those jobs have family or friends that they support. The benefits of employment radiate beyond the individuals employed. Through lending, IBC is supporting individuals, families, and communities.

6. BUILDING POSITIVE RELATIONSHIPS WITHIN COMMUNITIES

IBC's sixth organizational goal is to build positive relationships with the individuals and communities it serves. As discussed previously, many of IBC's clients are referred by family members and friends. Whether IBC can reach its other goals (e.g., providing access to capital, expanding its service) depends on its ability to build trusting relationships within communities.

Repeat loans

At present, the data collection IBC undertakes does not capture the extent to which IBC is building positive relationships with individuals and communities. However, that 149 clients have applied for and received more than one loan since 2005 is a clear indication that IBC is successfully building strong and positive relationships.

Supporting Frog Lake First Nation and area

Assessing the strength of relationships through quantitative data is difficult. Therefore, through a series interviews with entrepreneurs in Frog Lake First Nation, we sought to determine the extent to which IBC clients feel supported and encouraged by IBC.

OPPORTUNITY

When asked about IBC's presence in Frog Lake First Nation, people who participated in our study mentioned the importance of *opportunity*. IBC's approach to services (one-on-one client support) creates a context for individuals to succeed. This strong emphasis on opportunity is consistent with the thesis of this report: many individuals have the ability, desire, and knowledge to succeed in business, but without reasonable access to capital, they simply do not have the opportunity to do so.

I think [IBC] has given a lot of our community members opportunities ... a lot of them have tried certain business ventures, whether it is machinery, cattle, or whatever, and then haven't been able to come up with funds. I think with IBC they've been given that opportunity to be successful. – IBC client

Actually everyone refused me; I went to a number of banks ... They all just said no. Straight up, no. I was frustrated ... It was a really long struggle and there was no hope in the banks like CIBC, TD, Royal Bank, all these banks I approached ... That's how [IBC] came into it. I was the happiest person when I walked out and [they] said yes. – IBC client

A SUPPORT SYSTEM

Another theme that arose during the study was IBC's role in business support. IBC clients reported that IBC was open-minded and approachable, and provided a channel through which to discuss concerns, seek advice, and share good news. IBC's client-centred approach becomes more important when loans are in danger of faltering; IBC loans officers and the general manager increase contact with the client and look for solutions to help the client get back on track. One client said that an important element of IBC's success is that its support is tailored specifically to Aboriginal people and their needs.

On continuing a relationship with IBC: "I feel more comfortable with [IBC's general manager] and I can go to him and talk to him about ideas. I can go to a bank and they are not going to be more open-minded about something, whereas with [IBC's general manager], we can put our heads together."

– IBC client

Importance of building positive relationships

IBC's effort to build positive relationships is more than something "nice to have"; it is imperative to the success of IBC's clients and future. Strong relationships between IBC and its current and prospective clients allow for better access in the community, an increased demand for loans, and better-supported, more successful businesses.

A WAY FORWARD

The research summarized in this report represents a preliminary investigation into an area of social finance that is deserving of more detailed study. The findings indicate that developmental lending improves the socioeconomic well-being.

Poverty among Aboriginal people in Alberta is a complex problem for which there is no simple solution. Despite the best efforts of people in all sectors, well-intended government policy, and an increasing priority on corporate social responsibility, chronic unemployment and persistent poverty on Indian reserves remain at unacceptably high levels. The precise socioeconomic impact of IBC's developmental loans to Aboriginal entrepreneurs across Alberta is difficult to quantify. The findings of this report, however, suggest that developmental lending, in conjunction with effective policy and community-based initiatives, is one of the most obvious ways to address the socioeconomic needs of Aboriginal people.

In its 2010 report, the Canadian Task Force on Social Finance described Canada as standing to gain from the expansion of an impact investing market that can “more efficiently connect the best people and the most

innovative ideas to the private capital they need to tackle complex societal problems, create jobs and strengthen communities.”¹⁹

In Alberta, the unique confluence of the growing needs of industry and an Aboriginal population increasingly motivated to become entrepreneurs creates a landscape for developmental lending to flourish.

We suggest that unlocking the potential of developmental lending in Alberta will deliver value to stakeholders in all sectors, in all regions of the province. We believe that taking developmental lending to the next level requires ensuring that the business sector is aware of the option to reallocate capital to organizations such as IBC as needed to engage more Aboriginal suppliers.

Our findings will, we hope, help increase awareness and understanding of the value of developmental lending in Alberta and set the stage for further investigation.



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