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Indian and Northern Affairs Canada

Prepared by:

Industry Canada

Assisted by:

TSN Canadian Facts

Evaluation of Aboriginal Business Canada's Aboriginal Financial Institutions and Access to Capital Program

Project 07/05

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Executive Summary

Aboriginal Business Canada (ABC) was transferred to Indian and Northern Affairs Canada (INAC) from Industry Canada on December 1, 2006. This evaluation was conducted prior to the transfer.

The evaluation covered many issues and identified a broad range of views on them. Consensus did not always emerge. Notwithstanding there was sufficient support for the following findings which are summarized across evaluation issues of the study. A more detailed summary can be found in Section 5 - Conclusions and Observations or in sections devoted to separate evaluation issues.

Program Rationale

A strong rationale for the Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programs exists. It is based on the needs of Aboriginal entrepreneurs resulting from access to capital difficulties. Needs of Aboriginal Financial Institutions (AFIs) provide a secondary rationale–a derived need that would not exist unless there were needs of Aboriginal entrepreneurs.

Design

The AFI/ATC programs are consistent with and relevant to the overall goals of Aboriginal Business Canada (ABC), AFIs, and other stakeholder organizations. Although a majority suggest the role of National Aboriginal Capital Corporation (NACCA) with regard to quality assurance is the right one and feel NACCA does a good job in that role, a significant minority do not. A significant minority would like changes to NACCA's role but there is no agreement about what an appropriate role might be. Most felt AFIs could never be independent from government.

Service and Delivery

Most agreed proper operational, financial and management controls were in place nd one-half had no concerns about the operations and mandate of AFIs. When concerns were expressed about AFI service and delivery aspects they usually identified a lack of efficiency and consistency.

Main factors leading to success for AFIs were: its people; and effective policies and procedures. Development of AFIs was assisted through networking opportunities, NACCA, and AFI and ATC programs.

Cost-Effectiveness

AFIs, NACCA, and ABC are responsible for different delivery aspects. From all to slightly more than one-half judged them to be efficient and cost-effective in their respective delivery. Many said that the movement of the locus of AFI delivery to the regions from headquarters had resulted in an improvement. AFIs were judged to be the most cost-effective mechanism to delivery higher risk/low security lending to Aboriginal businesses. No alternatives were identified.

Client Reach

Most felt the AFI network provides reasonable coverage of Aboriginal entrepreneurs but some identified financial and geographic gaps or ineffective coverage by AFIs. Although relationships among AFIs and between AFIs and NACCA were generally viewed as good, there were suggestions to overcome perceived weakness including: standardizing funding across Aboriginal Capital Corporations (ACCs) and Aboriginal Community Futures Development Corporations (ACFDCs)/open program eligibility to all; encourage mergers/partnerships/sharing among AFIs; institute regional/local meetings; and redefined role of NACCA/responsiveness to members.

Impacts

The AFI Network offers a broad range, but inconsistent coverage of business support and financial services across its members.

AFIs positively affect Aboriginal: business performance, entrepreneurism, economy, and access to other sources of financing. AFIs provide loans to those who are unlikely to receive them otherwise, and when they do, business success is likely to extremely likely.

Most point to the $1 billion dollars investment by AFIs as evidence that an impact must have happened. However, the right tools are not in place to effectively assess the AFI network's impact on the Aboriginal economy. There is no consensus on what the right tools would be.

Interest Rate Buy-down(IRB) and Enhanced Access Loan Fund (EA) are providing funds needed by AFIs.

Lessons Learned

AFIs are successful mainly due to their unique position within the community and their staff/Board members.

Factors facilitating AFI implementation and delivery were: funding, role of community, AFI staff and Board members, the work of NACCA, and strong policies and procedures. Factors impeding implementation and delivery were: the lack of funding, remoteness and travel costs, and lack of training/skills/high turnover of staff.

Lessons learned related to use of developmental loans were:

- more "up-front" due diligence is required due to their higher risk. References should be investigated and the existence of a support network confirmed for loan recipients;

- clients should be encouraged to "start off small" and "not bite off too much";

- borrowers should have some form of equity, community support, and a functioning business plan. The plan should be used as a reference point and continually updated; and

- loan decisions should be based on a realistic understanding of the community being served. Potential benefits should be weighed critically against the applicability of the proposal to the community.

Findings led to the following recommendations.

Level the Playing Field for AFIs

Recommendation

1. Departments, Regional Funding Agencies and AFIs should work together to find ways to better co-ordinate available funding for AFIs to reduce the disparities caused by funding differences and to build on the experience gained from the varied funding models.

Differential access to funding sources for ACCs and ACFDCs may create differences in the availability or quality of business support and financial services for Aboriginal business clients. AFIs and those who fund them should work together to reduce or eliminate adverse effects of the funding differences and bring improvements to the funding approaches which reflect the knowledge and experience gained through the use of the funding models.

An example where this has already happened is the recently introduced Business Support Officers which provides funding for pre-care and after-care support to ACC clients similar to services available to clients of ACFDCs through their funding model.

In the future, a program providing partial support to off-set the higher risks of developmental lending might be considered for all AFIs. This would provide direct encouragement for the provision of high risk/low security lending by absorbing the extra costs of these loans. Such a funding approach might eliminate or reduce the need for indirect forms of support to developmental lending through capital top-ups or payments for operational supports.

Review Direction of NACCA

Recommendation

2. Aboriginal Business Canada (ABC), in concert with National Aboriginal Capital Corporation Association (NACCA), should consult with Aboriginal Financial Institutions (AFIs) on the future direction of NACCA and support changes that better reflect the needs of all AFIs.

A significant minority of key informants were not fully satisfied with the role and services of NACCA. AFIs should be consulted to identify improvements that would meet the needs of all AFIs.

Discussions might consider suggestions that emerged from this evaluation:

- institute regional meetings or other opportunities for dialogue;
- fast track release of the "Best Practices" report and training packages; and
- renew the relationship with and define the role of members.

Further Investigate other Concerns from the Evaluation

Recommendations

3. Aboriginal Business Canada (ABC) should consult with Aboriginal Financial Institutions (AFIs) to better understand their concerns and to set a plan to deal with those requiring attention.

4. Aboriginal Business Canada (ABC) and other related government stakeholders could work with National Aboriginal Capital Corporation Association (NACCA), the Acces to Capital (ATC) Board, and Aboriginal Financial Institutions (AFIs) to determine key performance measures for the AFI network. These could include measures to improve "management for results" and to assess "impact on the Aboriginal economy".

The evaluation identified a number of strongly held views. However, these views were identified by only a minority of key informants. Potentially these may indicate more widely held concerns that need to be addressed.

Discussions with AFIs might consider the following issues identified in the study (*in italics*) and their possible implications (in plain text) below. A possible direction for action is also identified **(in bold).** However this direction is based on the limited evidence from the evaluation and should be confirmed through further discussions with AFIs.

- *There appear to be some inconsistencies across the AFI network in the treatment and reporting of key financial information*. This may lead to uncertainties about the financial health of AFIs and to appropriate future AFI programming. More consistent and well-defined financial information would reduce these uncertainties. **ABC could work with NACCA and the ATC Board on ensuring consistency around a core set of financial indicators.**

- Although data on the performance of the AFI network is collected, most felt these did not effectively assess the AFI network or its impact on the Aboriginal economy. Measurement of the "health" of the AFI network or its "worth" to the Aboriginal economy is impeded.

- Key informants identified training as a success factor for AFIs when it occurred and a detriment to achieving success when it did not. A number called for a standardized or common core training package instead of the series of one-off training activities that had been supported under S&T. Benefits might include efficiencies in training delivery and a more uniform skill set across all AFIs. **ABC could work with NACCA and the ATC Board to ensure that skills across the network are developed through the provision of a standardized training program supported through S&T under ATC programming.**

- *There appear to be small geographic pockets where duplication may exist as two or more AFIs share the same client base.* This may lead to inefficiencies and potentially to loss of one or more AFIs through competitive pressures. Even if there is no sharing of clients there may be advantages through consolidation. **When there are clear advantages to amalgamations, mergers or partnerships ABC and other government stakeholders could encourage discussions toward these ends among all parties.**

- *AFIs discussed the benefit in sharing best practices including examples around strengthening their policies and procedures. However, they also identified a general lack of opportunities and a reluctance to share best practices*. This may retard the development of the AFI network and add costs as each AFI must discover its own best practices through trial and error. ABC and other government stakeholders could provide opportunities for exchange by encouraging more frequent regional meetings among AFIs, visits or interchanges of staff among AFIs, or establishment of an electronic chat room to discuss issues of mutual benefit. NACCA could promote discussions around its report on best practices.

Section 1 - Introduction and Approach

Background

Aboriginal Business Canada (ABC) was transferred to Indian and Northern Affairs Canada (INAC) from Industry Canada on December 1, 2006.

Aboriginal Business Canada (ABC)[1] works with Aboriginal entrepreneurs to promote the development, competitiveness and success of Aboriginal business in order to build a competitive, sustainable Aboriginal economy actively linked to the economies of Canada and the world.

The evaluation of the Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) program was conducted by ABC prior to the transfer.

Aboriginal Business Canada (ABC) has four strategic priorities:

- expand markets and trade opportunities;
- encourage innovation;
- support youth entrepreneurship; and
- strengthen Aboriginal financial and business development organizations.

The Aboriginal Business Development Program (ABDP) is made up of three components. The evaluation of two of these components is presented in this report - Aboriginal Financial Institutions (AFI) and Access to Capital (ATC). Both AFI and ATC provide supports to a group of Aboriginal financial and business development organizations called Aboriginal Financial Institutions (AFIs). (To avoid potential confusion we will refer to an AFI or AFIs when we refer to one or more Aboriginal Financial Institutions respectively and AFI when we are referring to the program throughout this report).

AFIs operate as lenders of developmental or non-bankable loans to Aboriginal entrepreneurs. Typically these loans involve higher risk with no or limited security making them unlikely candidates for commercial banks. There are two types of AFIs which will be important for the evaluation, Aboriginal Capital Corporations (ACCs) and Aboriginal Community Futures Development Corporations (ACFDCs). Although both lenders for Aboriginal entrepreneurs they operate from fundamentally different business models.

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1 Appendix 1 presents acronyms used by the study.

Since 1985, ABC has provided the initial capitalization to establish 35 ACCs under contribution agreements lasting up to 12 years. Once each agreement expires the ACC is no longer accountable to ABC related to the initial funds. However some ACCs have received a top-up of their capital base, especially those who did not receive their full allocation because of cut backs through program review in 1994. Those ACCs receiving a top-up are required to submit to monitoring and reporting usually for a further 5 years. Currently, 30 ACCs operate - 16 subject to and 14 beyond the Industry Canada reporting period. They have an average capital base of approximately $5 million and provide loans averaging $38,000 to individual clients. When first created, the expectation for ACCs was that they would be able to lend out from their loan portfolio and charge an interest rate sufficient to cover loan losses and operating expenses without eroding their capital base. Lower interest rates in subsequent years have limited this potential.

Aboriginal Community Futures Development Corporations were provided with a much smaller initial capitalization (averaging $1 to $1.5 million) by other departments and regional development agencies primarily. However, unlike ACCs the 27 current ACFDC[2] receive an annual grant (approximately $200,000) to cover operating expenses including pre- and after-care for their Aboriginal business clients and depending on the regional agency, occasional top offs of the capital base.

Loan amounts are generally too small to be of interest to mainstream financial institutions. They also tend to carry higher than normal risks due to:

- limited equity participation by the Aboriginal business owners;
- little or no collateral to secure the loan (largely due to section 89 of the *Indian Act*);
- little experience by the business management;
- limited financial track record;
- reliance on small local market in remote and dispersed regions; and
- uncertainty associated with the legal and cultural Aboriginal environment[3].

The AFI program includes:

- **establishing, expanding or diversifying the operations of an AFI**. This provided the initial capitalization and operating contributions to ACCs. Twelve ACCs were affected by the 1994 Program Review resulting in a postponement of some capitalization disbursements that had been previously approved. During 2001-2002, new program dollars allowed for the resumption of ACC capitalization payments. Funds were disbursed on a case-by-case basis;

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2 There are 27 organizations that are relevant to the study. These began as Community Futures Development Corporations or Aboriginal Community Futures Development Corporations or Aboriginal Institutions. Currently all 27 operate. Five of them are joint ACFDC/ACC.

3 ABC internal document, "Future Directions for Aboriginal Financial Institutions (AFI)" p.1

- **Aboriginal Youth Business Initiative (AYBI)**. Twenty ACCs and 2 ACFDCs have made use of the Aboriginal Youth Business Initiative (AYBI), a program designed to assist youth in developing their entrpreneurial skills and giving them access to a source of loan capital at preferred rates and terms. There are currently 17 AYBI contracts in place with ACCs;

- **Business Support Officer (BSO**). In April 2005, Business Support Officers (BSOs) programming was initiated providing partial support to an ACC to engage a BSO. The role of the BSO varies across ACCs depending on the areas of most need. Generally a BSO would be involved in providing pre- and after-care services to loan recipients similar to the services provided by ACFDCs under their funding model. Twenty ACCs had made use of the BSO as of March 2006. (BSO agreements are not part of this summative evaluation due to their recent introduction);

- **Other AFI Support**. Under special circumstances ABC provides support for studies for feasibility, business planning, market assessments and related marketing activities, negotiation, information gathering and diagnostic studies, and consulting. Generally third parties are engaged to undertake this work on behalf of the ACCs with ABC providing funding support under a contribution arrangement;

- **National Aboriginal Capital Corporation Association (NACCA)**. ABC provides funds for the establishment and operational support of a national association (NACCA) to coordinate the activities of AFIs. NACCA represents 58 AFIs, including 26 ACCs, 22 ACFDCs, five joint ACCs/ACFDCs and five other Aboriginal developmental lending corporations. NACCA provides products and services to AFIs and is the program manager for ATC, as noted below. NACCA also delivers support products and services funded by DIAND and not part of this evaluation (First Nations and Inuit Business Program and Aboriginal Contractor Guarantee Instrument - Bonding);

The **Access to Capital (ATC)** program began in 1999. NACCA is program manager and Peace Hills Trust is the program administrator for ATC. The program, funded with the Department of Indian and Northern Affairs (DIAND) and regional agencies, includes:

- **Interest Rate Buy-down (IRB)** - an interest rate subsidy for qualifying AFIs who wish to increase their loan capital pools by securing credit lines with mainstream financial institutions. These credit lines in essence provide a top up of the capital of AFIs. However, AFIs must pay the unsubsidized component of the interest rate to the lending financial institution;

- **Enhanced Access (EA) Loan Fund** - provides additional loan capital to an AFI to allow it to expand outside the AFIs normal catchment area in order to allow it to service unserved or under-served areas. The program is a loan fund, and capital is repaid to replenish the fund as the loans are paid out;

- **Support and Training (S&T)** - pays for products and services to improve management practices of AFIs. Examples include loan management systems, standardized administrative or auditing procedures, and investment services for surplus funds. NACCA also supports individual training and development activities.

Exhibit 1 identifies the initial and current AFIs and the uptake for ATC programs among AFIs.

Evaluation Requirement

In March 2002, ABC, in conjunction with the Audit and Evaluation Branch, adopted a multi-year Audit and Evaluation Plan to assess and manage three key risks to ABC. The plan proposed an evaluation of the Aboriginal Financial Institution (AFI) and Access to Capital (ATC) components in fiscal year 2005-2006 to assess the effectiveness of the program components, the network and the continued role of AFIs as a developmental lender in the Aboriginal community.

This report responds to this evaluation requirement.

Exhibit 1 - Uptake of Program Elements

	ACC	ACFDC / CFDC AI	TOTAL
	(#)	(#)	(#)
Initial AFIs	35	27*	62
Currently operating AFIs	30	27**	57
AYBI:			
- Received since start	20	2	22
- Currently under program	17	0	17
- Being considered	2	1	3
BSO:			
- Received since start	20	--	20
- Currently under program	20	--	20
- Being considered	2	--	2
ATC (Received to March 2005)			
- IRB	10	2	12

	ACC	ACFDC / CFDC AI	TOTAL
- EA	4	2	6
- S&T	30	27	57

* Relevant Aboriginal Community Future Development Corporations (ACFDC), Community Future Development Corporations (CFDCs) and Aboriginal Institutions (AI) over time.

** Five of these are joint Aboriginal Community Future Development Corporations and Aboriginal Capital Corporations.

Study Approach

This study follows a research plan developed by the Audit and Evaluation Branch. It follows a multiple lines of evidence approach using data sources identified in the plan.

The following activities were conducted:

- review of program documents and databases;
- interviews of 45 key informants from AFIs. Seven included questions related to the case study;
- interviews of 15 non-AFI key informants. Of these six were ABC staff and nine were from a variety of other key informant organizations; and
- survey of 16 clients of four AFIs involved in the case study.

The original evaluation design included a survey of the clients of the seven case study AFIs. Client comments would be added to those of their AFI to form separate case studies. Client completions would also be analyzed as a group to provide another line of evidence for the evaluation. Privacy issues (AFIs first needed to obtain authorization from their clients to release contact information to us) limited access to client lists on a timely basis and in sufficient numbers for our intended purposes. As a result, a combined case study was developed which included the AFI responses and responses from clients of four AFIs. Findings from the 16 clients are also used in the report however their small number limit the conclusions which should be drawn from this source.

Structure of the Report

This report is structured around the key issues of the study. Findings by issue are presented in the following sections:

- Section 2 - Findings on Program Rationale and Design;
- Section 3 - Service and Delivery, Cost-Effectiveness and Client Reach; and
- Section 4 - Findings on Impacts and Lessons Learned.

Study conclusions are presented in Section 5 - Conclusions and Observations.

Section 2 - Findings on Program Rationale and Design

Introduction

This section presents findings related to program rationale and design issues of the evaluation.

Rationale

Problems or Needs Addressed by Programs

All key informants identified problems or needs of AFIs and/or Aboriginal entrepreneurs as being addressed by the programs. Key informants were divided in terms of their views on whether the rationale for the AFI and ATC programs was based on the needs of Aboriginal entrepreneurs (60%) or the needs of AFIs themselves (40%).

Needs of Aboriginal Entrepreneurs

The majority of key informants felt the problem or need that the programs were intended to address was difficulties accessing capital for Aboriginal entrepreneurs (and also communities in the case of ACFDCs). A typical response supporting this view was that banks would not provide loans to Aboriginal entrepreneurs due to higher risk (a result of inexperience, low education, and limited markets) or no or limited security (often but not exclusively due to restrictions of the *Indian Act)*.

Those with this view most often identified data from NACCA on the extent of loans provided by AFIs as justification that a need for loans must exist. Most referred to the $1 billion of AFI loans estimated in a report by NACCA[4] as support for this need. Fewer key infomants suggested development of a community measurement system using data from social services organizations to indicate the extent of need for loans to Aboriginal entrepreneurs and communities.

Supporting the view that difficulties accessing capital by entrepreneurs provides the rationale for the AFI and ATC programs, AFI clients identified a lack of equity, especially for those on-reserve, or liquidity, as barriers they faced in guaranteeing their loan. As a result, traditional lenders, such as banks and trust companies, considered Aboriginal clients too "high-risk" to be

4 Aboriginal Financial Institutions: Fiscal 2004: "The First Billion"p. 2.

eligible for financing. Also frequently mentioned were clients' remote or rural location. Traditional lenders simply did not offer services in their region. In both cases, respondents reported limited funding available from any source other than their AFI.

Prior to receiving their AFI loan, two-thirds of AFI clients had attempted to obtain a loan from another source. None had been successful. The remainder had not tried another source as they knew none was available. These experiences further support the view that difficulties accessing capital by entrepreneurs provide the AFI/ATC rationale.

Needs of AFIs

Remaining key informants (40%) believed that the lack of funding for AFIs was the main issue addressed by the programs. They identified a lack of capital and a lack of expertise and skills by staff and Board members of the AFI as the rationale supporting the program. They suggested audited financial statements of AFIs would support their view of this need. Those applying for ATC funding, for example, would provide financial data indicating need. Key informants also recommended using NACCA summary reports, as other sources of measurement.

Consistency with Federal Mandate and Expectations

The rationale for a program is strengthened when it is consistent with the mandate and expectations of its department and the Federal government. There was almost universal support for the view that the following activities were consistent with the mandate and expectations of the federal government, Industry Canada and Aboriginal Business Canada:

- providing funds to AFIs to start up, capitalize and run loan programs for Aboriginal businesses;
- providing support services and loans to young Aboriginal entrepreneurs;
- supporting the establishment of a national association (NACCA) to help coordinate the activities of AFIs;
- supporting access to capital and to training and management tools for AFIs.

The vast majority of key informants believed that the overall goals, objectives and direction of the AFI and ATC programs were in keeping with the expectations of ABC, AFIs, and other stakeholder organizations further supporting their rationale. However, most qualified their responses, mentioning either a lack of funding or limited access to these programs. Concerns were:

- program funding limits did not allow the AFIs to properly serve their client base. Key informants' expectations of their own service delivery and community capacity-building capabilities were not in keeping with the limits of the AFI and ATC programs. One key informant mentioned that the EA fund had run out of funds in September 2005 and there were concerns about IRB funding drying up;

- overly narrow scope of the AFI and ATC programs leading to difficulties accessing programs. There is a perception among a number of ACFDCs that they are not eligible for support through AYBI, BSO and Other AFI Support components under the AFI program.

These types of responses were symptomatic of a general view among key informants, which was that inequalities exist among the different forms of AFIs. Key informants from ACCs, ACFDCs, and Agricultural ACCs, felt that they were not all able to access AFI or ATC programming on an equal level. This led to several responses related to the overly-narrow scope of ABC, a desire for a more "even playing-field"[5], and in some cases a desire for NACCA to assume a greater responsibility over programming, due to the perceived failure of ABC in this regard.

Design

The evaluation reviewed a number of issues related to the design of the programs.

<u>Consistency with Goals</u>

Virtually all key informants believed the set up of AFI/ATC programming was consistent with and relevant to the overall goals of ABC, AFIs, and other stakeholder organizations. Concerns were again expressed about the availability and access to support through AFI and ATC and inherent differences for ACCs and ACFDCs.

Other comments related to design issues were few in number:

- revise funding model for NACCA as AFIs don't have funds to pay for memberships;

- concern that NACCA should be involved in advocacy role only not in the delivery of programs. An example was NACCAs delivery of an agricultural program for DIAND which was seen as a threat to Agricultural AFIs;

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[5] Generally ACCs and ACFDCs both wanted the positive features of the other model that they felt their model lacked. Typically ACCs wanted some mechanism to cover their overhead expenses while ACFDCs wanted a larger capital base.

- the age limits for AYBI were problematic. Many entrepreneurs older than 35 had needs that might be well suited to the AYBI model but are ineligible due to their age; and

- the amount paid to administer a loan made under the EA component should vary based on remoteness.

Access to Loan Capital, Financial and Business Services

Loan Capital

Virtually all key informants felt that AFI/ATC programming had improved and/or increased Aboriginal entrepreneurs access to loan capital. Most attributed the improvement to the ATC programming while a few mentioned top-ups of ACCs and the BSO and AYBI components under AFI as reasons for the improvement. A number spoke to AFIs being the only source of loan capital for Aboriginal entrepreneurs or to the large amount of loans made since the inception of the AFI network as support for their view.

Financial and Business Services

Key informants felt that AFI/ATC programming had improved and/or increased Aboriginal entrepreneurs access to financial and business services. Most identified the S&T component as having improved the quality of business services. An increase in the volume of business services provided by AFIs was due to the BSO component directly, and indirectly through the administrative support dollars attached to the AYBI and EA components.

Although virtually all see improvements or increases to loan capital, and financial and business services many still commented that they remained insufficient to the need.

Effectiveness of AFIs

The S&T component is intended to provide AFIs with the tools, skills and training needed to operate as effective financial and business organizations. Eighty per cent of key informants believed that the AFIs had been provided with the tools, skills and training they needed. A number pointed to software applications and training of staff and Boards through S&T in support of their view.

Remaining key informants felt that AFIs had not been provided the needed tools, skills and training. Such key informants wanted a standardized or common core training package instead of the series of one-off training activities that had been supported under S&T for each AFI. Our understanding is that some training packages developed by NACCA are awaiting accreditation.

Some key informants pointed to factors that would necessitate on-going training support:

- small remote labour pools from which many AFIs drew their staff were not able to produce employees with an aptitude for the skill requirements of the jobs; and

- high turnover of staff, as once trained, staff went to other, more financially-rewarding jobs.

Both the ACC and ACFDC models are not profit-oriented. The original design for ACCs saw them maintaining their capital base while drawing operating funds from the net proceeds after loan losses. However, the ACC model was developed at a time of higher interest rates of 12% instead of the 8% now charged. ACFDCs operate with smaller capital bases with no expectation that the returns from their portfolio will pay for operations. Each year they receive an amount from their funding agencies to help cover operating expenses. Given this awareness of the underlying economics of the models, the vast majority of key informants felt that AFIs were effective financial and business services organizations. Many report that organizations must be effective to have survived as long as they have as developmental lenders. A small group (less than 10%) suggested some AFIs were effective while others were not and generally felt that the economic health of AFIs was less than depicted in audited statements due to insufficient loan loss provisions. A smaller group felt AFIs were efficient lenders but inefficient business services organizations.

Capacity Building

The role of AFI/ATC toward increasing the capacity of AFIs was measured using a 7-point scale from extremely significant to extremely insignificant. Virtually all rated it high on this scale and three-quarters of key informants rated it as very significant or extremely significant.

Role of NACCA

About two-thirds of key informants felt the role played by NACCA related to ensuring the quality of the products or services offered by AFIs had been the right one. NACCA had performed the following functions in meeting this role, according to key informants and listed by frequency of mention:

- **central services provider.** Recommendations, support, training, policies, standards and guidance put forth by NACCA;

- **advocate**. Positive role as intermediary between AFIs and other governmental organizations, most notably ABC. In the view of some, NACCA had managed to secure more funding for AFIs, which indirectly may have improved the quality of the products and services they were able to offer;

- **network**. Hub for networking among AFIs at their annual general meetings and at other meetings (previously funded through ATC). This networking had led to a freer exchange of ideas and "best-practices" among AFIs, which had also indirectly improved the quality of products and services;

- **trouble shooter**. Staff visiting an AFI experiencing difficulties to provide a diagnostic function related to AFI systems or procedures. (This activity is supported by DIAND).

Some negative comments were attached to NACCA's role in ensuring quality products and services. Some key informants believed that NACCA had not played an effective role. Among these negative responses, the view surfaced that NACCA's role was not actually to ensure the quality of offered products and services but instead was to be an advocate or lobbyist on behalf of the AFI network. Some felt that NACCA had no plan around the delivery of S&T including auditing and evaluating that the money had been spent where intended and wisely. Others were concerned that in becoming a service-provider, NACCA had lost sight of it's mandate, to act on behalf of the AFI network.

Key informants were asked to rate how significant NACCA's role was related to ensuring the quality of products or services offered by AFIs. A seven-point scale from extremely insignificant to extremely significant was used. Reflecting the range of views noted above, sixty per cent rated NACCA's role as significant or higher, 20% rated it neither insignificant nor significant while 20% rated NACCA's role lower.

Among the one-third who felt some role other than quality assurance was appropriate for NACCA, there was a clear difference as to what that role might be. Many in this group felt that NACCA's role should be advocacy. A number mentioned that NACCA should not be involved in program and service delivery. Some went on to mention that NACCA was not structured for program delivery, that it was not NACCA's place to determine what is a quality product, and that regulation and service delivery is not part of NACCA's "work plan". Conversely, there were several key informants who commented that NACCA should actually focus on facilitating information acquisition, that it should take over more responsibility for service delivery from ABC, and that it should not be a lobby group. A few favoured a role for NACCA like a "credit union central", providing services to members based on needs. Services might include setting standards or benchmarks, sourcing insurance or providing common training products.

Program Complementarity, Duplication or Overlap

<u>With other Financial and Business Programs</u>

Most key informants suggested AFI and ATC programs complement other existing financial and business programs. Although not probed further, the most obvious case of complementarity may have been with the contribution agreements providing equity through Aboriginal Business Development (ABD) program of ABC. Funding packages were often brokered with ABD providing contributions and AFIs providing loans.

Excluding possible overlap or duplication between ACCs and ACFDCs (discussed later) only a few examples of possible overlap or duplication were identified between AFI and ATC programs and other existing financial and business program. Examples listed below were only identified by one or two key informants each:

- a First Citizen Fund, that provides lending to those of Aboriginal descent, was identified as possibly overlapping with ACCs and ACFDCs in British Columbia. Administered through ACCs in British Columbia these funds might duplicate or complement AFI/ATC;

- there may be overlap with some of the minor programs among the 28 programs offered by 11 funding agencies related to Aboriginal economic development broadly;

- a few also mentioned that AFIs sometimes engage in bankable loans and would therefore duplicate or overlap with commercial banks. However they noted that any overlap/duplication was at the margin and not indicative of the portfolios of AFIs;

- another identified that commercial banks were becoming more aggressive and were establishing branches on reserves. However, others identified that these operated as deposit-taking institutions primarily and did not operate as developmental lenders;

- Provincial Farm Credit Corporations may provide agricultural loans which overlap with agricultural ACCs. Again this might duplication or complement AFI/ATC programs;

- other provincial lending agencies were also being established; and

- the Business Development Bank of Canada has an Aboriginal component which might duplicate on large projects.

Sixty per cent felt there was adequate co-ordination between the separate financial and business programs while the rest believe co-ordination was inadequate.

Between ACCs and ACFDCs

Virtually all key informants identified the relationship between ACCs and ACFDCs as one of complementarity. A few identified that in some pockets of the country there was geographic overlap between the coverage area of an ACC and ACFDC and duplication existed when they also covered the same client group. (This is more completely explored in Section 3 related to client reach.) One key informant also identified that the BSO component could duplicate payments made by a regional agency for operating expenses of ACFDCs.

Sixty per cent felt the co-ordination was adequate between ACCs and ACFDCs while 30% felt that it was not. The rest suggested co-ordination depended on the circumstance, either the area or personalities involved or if there was some benefit through co-ordination. We were told of experiences where ACCs and ACFDCs were extremely territorial and competitive. We were also told of experiences where ACCs and ACFDCs acted co-operatively and examples where they had merged.

AFI Independence from Government

About 60% of key informants felt that AFIs could not operate independently without further government involvement. Seventy per cent felt they could not operate without government financial support. Most cited the economics of being a developmental lender especially in an era of low interest rates to support their view that AFIs could not be self sufficient. Simply put, when expressed in percentage terms, operating cost and write-offs exceeded the interest rates AFIs were able to charge. This shortfall was met by eroding the capital base (requiring periodic top-ups of the capital base to remain viable) or receiving an operating subsidy (the ACFDC model).

A minority view was that AFIs could operate independently without further government involvement and financial support. A small group identified that a few AFIs could be financially independent. However views were conditional. These conditions are added to the suggestions of others about sustainability.

First, no common panacea emerged from key informants as to how AFIs might be made sustainable. Second, most suggestions involved combinations of changes to the AFI models and not a single item to fix. Third, most suggestions retaining a developmental lending focus for AFIs involved some form of on-going subsidy for sustainability and not complete financial independence.

No key informant identified the current ACFDC model as being sustainable. Its capital base was felt to be insufficient to achieve sustainability. Most suggestions started with an increased capital base either through capital inflows from government or through mergers. Suggestions that maintained the developmental focus for AFIs included some mechanism to compensate for the inherent higher risk. Suggestions included operating supports or subsidies (like the ACFDC model), a risk premium off-set program, or a program such as BSO to pay for client supports. Training supports were suggested to bring all staff to a suitable skill level before sustainability could occur. Another suggestion was to provide other or additional services on a fee per service basis that would cross-subsidize the developmental loan losses. Suggestions included delivering Canada Student Loans or setting up a call centre. Offering a diversified loan portfolio with more bankable loans offsetting or cross-subsidizing developmental loans losses was suggested. Another suggestion was to take a lower position on the risk curve–i.e. take on less risky (but potentially still developmental) lending. Cost cutting was suggested to lower the operating costs of AFIs. A final suggestion was that AFIs could only be sustainable if they served a strong vibrant community of sufficient size. If that community did not currently exist the AFI would have to build or strengthen the community first before sustainability could occur.

Key informants views were equally split about when Aboriginal Financial Institutions might become sustainable through the changes they had suggested. Some:

- identified that it was impossible to identify a time or that AFIs would never become sustainable;

- suggested a specific dollar amount of capital base was needed, which would create sustainability. The highest estimate was that each AFI would require $20 million in order to be sustainable, while the lowest estimate was $5 to $6 million per AFI; and

- provided a specific amount of time, in years, that it would take for AFIs to become sustainable if their resource suggestions or actions were followed. The highest estimate was that through slow growth, AFIs might achieve sustainability in 25 years. The lowest estimate was within 3 years. Most key informants, however, mentioned the time frame of from 5 to 10 years.

Section 3 - Findings on Service and Delivery, Cost-Effectiveness and Client Reach

Introduction

This section assesses three issues, related to the Aboriginal Financial Institutions (AFI) and Access to Capital (ATC) programs:

- service and delivery;
- cost-effectiveness; and
- client reach.

Service and Delivery

Operations and Mandate of AFIs

About one-half of key informants expressed concerns about the operations and mandate of AFIs. Concerns varied. Most were related to operational aspects:

- lack of efficiency;
- nepotism/self-dealing;
- loan losses are understated, not as they appear;
- too much emphasis on sustainability;.
- governance problem;
- double dipping across programs/funders;
- BSO spread over many people. Is it core funding disguised as programming?;
- no consistency, all AFIs are independent, all use different policies and procedures. This creates difficulty comparing across AFIs and telling the AFI story;

- ACFDCs have restrictions on how to expand the loan fund; and
- pressure to diversify may divert from core mandate. (In 2002, only one-third of revenues of ACCs were from loan interest) [6].

A few comments were related to the mandate of AFIs:

- adopt a more wide-sweeping mandate for the AFI network that would add consistency to the operations of AFIs; and
- provide a new mandate or a change in perception that would place more emphasis on community benefit and capacity-building, rather than misguided performance benchmarks.

Operational, Financial and Management Controls

Seventy per cent of key informants felt there were proper operational, financial and management controls in place to report on the activities, results and impacts of AFIs and NACCA on a timely basis. Most who shared this view felt that NACCA did a good job in asking for information, consolidating it, and sharing it with AFIs.

Remaining key informants suggested a number of concerns related to the adequacy of controls:

- there is no consistency across AFIs in terms of how they record and treat financial data;
- some felt loan loss provisions were understated;
- financial management controls differ across AFI network with no consistency;
- should be an aged summary of loan receivables. Should stop adding interest to a loan that is past due at some point. Need to write down loans in arrears instead of re-writing loan;
- there is no challenge function related to the data, calling into question the integrity of the data, and no interpretation of it provided by NACCA;
- use of different software by AFIs created some challenges for rolling up data on the AFI network;
- ABC can only look at AFIs that are still under AFI reporting requirements; and

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6 ABC internal document "Future Directions for Aboriginal Financial Institutions" p. 2

- BSO and AYBI deliverables (too) soft for monitoring purposes.

AFIs and Success

Key informants identified a large number of practices or delivery processes that contribute to the success of AFIs. Responses have been grouped within broad categories with the per cent of responses identified to indicate support for each practice/process leading to success.

- Experienced high quality staff, a strong General Manager, and/or a Board of Directors that was business minded and free of political process as contributing to success- 35%. This category included on-going staff and Board training and the participation of Boards of Directors to assist in evaluation and data collection.

- Effective policies and procedures and governance structures in place - 27%. These included having a plan with goals and objectives, measuring against them and reporting to the Board/community. Also included were effective loan review processes, data collection processes, lending practices, loan management policies, and risk management procedures that were applied consistently with due diligence.

- Good client supports and engagement - 14%. Comments included effective marketing and communication and working closely with clients at all stages of the loan, as well as pre- and post-care. Nurturing the client was felt to help establish an obligation to pay back the loan.

- Role in the community - 14%. This category included being in the community, being relevant to the community, understanding the complexities of the community, using a local approach, establishing a presence and ties in the community, and having a good reputation (known for going after security if the loan was not paid) in the community.

- Sharing information/best practices with other AFIs - 9%. This included all types of networking of information and resources, including NACCA annual meetings and NACCA best practices.

- Desire to help individuals become independent - 1%.

Key informants also identified what practices or delivery processes led to a lack of success of AFIs, and what lessons can be learned from the experience. Key informants often answered that the opposite of the success measures (discussed previously) lead to a lack of success. Other mentions are grouped within the following main categories with the percentage of responses identified.

- Lack of policies and procedures, including poor lending processes, political-driven decisions, the lack of risk evaluation, and insufficient collection practices, lack of independent audits, and failure to remove bad loans from portfolio by re-writing loan - 41%.

- Lack of training, the lack of quality staff, poor management, and the high rate of job turnover - 21%.

- Lack of funding affecting the ability of AFIs to properly service their area, or meet the demands of clients - 15%.

- Lack of follow-up, pre-, and post-care, among loan recipients - 13%.

- Some geographic or market disadvantage such as an over-serviced area or one-industry area - 6%.

- Government funding restrictions such as BSO not being available to an ACFDC that needed it - 2%.

- Lack of support from the Board of Directors/community - 2%.

Factors said to facilitate the development of the AFIs and/or program service delivery were:

- meeting with other general managers, networking, and associating with similar institutions - 24%;

- creation and presence of NACCA - 21%.;

- ATC programming - 8%;

- S&T budget for staff, with good quality staff and board of directors - 18%;

- real need within the communities they service, as well as being able to meet the demands for loans and counseling - 13%; and

- AFI programming (BSO, AYBI) or the role of ABC to build capacity - 6%.

Factors which may have impeded the development of the AFIs and/or program service delivery were:

- general lack of funds and capitalization (some initially only), and a resulting inability to be able to serve the needs of the community - 40%;

- limited human resources, including the lack of staff training and experience in management - 24%;

- lack of co-ordination between different government agencies. This included difficulties in AFI/government relations, misunderstandings with ABC, and a lack of attention and timeliness on the part of ABC in dealing with AFIs - 6%;

- lack of consistency among AFIs. This included an absence of benchmarks, structured training, inspections, and controls, as well as the uneven levels of development among the AFIs - 12%; and

- other reasons including: the personalities of AFI managers; low interest rates; no operational support; and security of equity and clients not understanding credit and repayability - 8%.

Another measure of success is the extent to which AFIs support opportunities which are sustainable from an economic, social or environmental perspective. Ninety percent of key informants thought AFI/ATC had increased the capacity of AFIs to support such opportunities significantly, very significantly or extremely significantly.

Cost-Effectiveness

Efficiency and Costs-Effectiveness of ABC Delivery

Programming under AFI is delivered by ABC staff. This delivery has recently moved from a headquarters function to one delivered through ABC regional offices in keeping with a recommendation of an operational review. Key informants were asked to comment on whether ABC delivery was efficient and cost-effective[7]. [8]

Slightly more than one-half believe that AFI program delivery was efficient and cost-effective. Many said delivery was improving. They see advantages from the movement of the locus of delivery to the regions. The perception is that regional staff are better able to be involved with and responsive to the AFIs in their area.

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[7] Definitions provided to key informants were:
- efficient: achieving the greatest output possible for the inputs used; and
- cost-effective: achieving the least cost per output produced.

[8] Many ACFDC key informants had little experience related to ABC delivery of AFI. Some had been supported through AYBI but most were not aware that they were eligible for support. ABC has not promoted the possible coverage of ACFDCs through elements such as AYBI, Other AFI Supports, or in unusual circumstances BSO, potentially due to budgetary concerns. As a result coverage of this evaluation question is limited.

Those who believed that AFI program delivery was inefficient and not cost-effective most often mentioned that turnaround times in dealing with ABC were lengthy. It was also felt that these delays were due to an excessive administration. Some key informants felt that the programming did not reflect the needs of the clients, and that ABC had a lack of understanding of the problems faced by AFIs.

Efficiency and Costs-Effectiveness of NACCA Delivery

NACCA has been charged with program delivery since the inception of ATC programming in 1999. Key informants were asked to comment whether interest rate buy-down, enhanced access or support and training, were being delivered efficiently and in a cost-effective manner by NACCA.

Eighty per cent felt delivery was efficient and cost-effective through NACCA. Concerns expressed were the lack of guidelines related to S&T, the lack of a challenge function related to approvals, movement of overhead dollars to other program areas, the over-use of S&T by some AFIs, no communication that EA funds were all allocated, and concerns that a non-NACCA member must go through the NACCA Board to get access to programs.

Costs-Effectiveness of AFI as a Delivery Mechanism

When asked whether AFIs were the most cost-effective mechanism to deliver higher risk or lower-security lending to Aboriginal businesses all who responded answered they were although a small number suggested they were by default as there were no alternatives. Some key informants declined to answer because they felt there were no alternatives on which to judge cost-effectiveness.

When asked directly most key informants could not identify an alternative to AFIs that would be more cost-effective.

Client Reach

Reasonable Access to Population of Aboriginals

Key informants were asked if the current delivery and organizational structure of the network of AFIs allowed reasonable access for the population of Aboriginal entrepreneurs, whether there were any areas not being provided reasonable access, and whether there were examples of overlapping coverage.

Sixty per cent identified reasonable coverage of the population of Aboriginal entrepreneurs. A small group identified overlap where two AFIs served the same client group. The situation in Kamloops was mentioned where three AFIs co-exist–two serving the same client group and the third serving a specialized client group. Not all felt that overlap was necessarily bad. Some felt that multiple sources for financing was a good thing for the client.

The remaining 40% of key informants identified gaps. However gaps were interpreted broadly to include financial and geographic gaps as well as ineffective coverage by AFIs. Most key informants, however, took the term "gaps" to be related to geographic gaps. For such key informants the gaps included off-reserve Aboriginal populations, especially in urban settings; Metis everywhere; as well as Northern Ontario, Labrador, and remote communities where the costs of servicing the communities were prohibitive. Financial gaps included businesses that required very large loans, small businesses, and communities in general with poor infrastructures. A few felt that there were gaps in coverage, but that these gaps could be attributed to a failure on the part of AFIs to inform their respective communities about the various types of programming available.

All AFI clients interviewed felt that services of AFIs had been easy to access and all but one felt that other businesses would find the services easy to access. However this group reflects those who had successfully accessed the AFI services and may not be representative of all Aboriginal entrepreneurs.

Relationship among AFIs

Key informants were asked to identify what the relationship between AFIs was like. Almost 90% saw it as positive but most tended to qualify their response. They saw each AFI as being fiercely independent and competitive but willing to put differences aside when it was in their common interest. Some mentioned that the relationship was stronger in a regional context, and was more limited nationally.

However a factor in the relationship appears to be the division between ACCs and ACFDCs and possibly between Agricultural ACCs and non-agricultural AFIs. A number characterized a national meeting of AFIs as a young teen dance where boys lined up on one side of the room and girls on another. The schism which separates these groups appears to centre on the different funding regimes they operate under. These differences create tension between AFIs and a certain degree of animosity. Both sides appear to see benefits in aspects of the other's funding model. But there also seems to be a fair degree of misunderstanding of the other side as well.

Strengths and weakness of the AFI relationship and what could be done to improve weaknesses in the relationship were addressed in key informant interviews. Strengths tended to follow a single theme with key informants speaking generally about communication, networking, and co-operation. Co-operation took the form of working together on a project to share risk such as syndicated loans in Saskatchewan and co-operative relationship between ACFDCs and ACCs, in which each brought different specialized knowledge to the relationship.

References to weaknesses tended to follow different themes. Comments on weaknesses and the percentage by themes were:

- not enough sharing between AFIs, and there was sometimes a perception of competition, or “Empire building”, between AFIs - 31%;
- difference in funding between ACCs and ACFDCs, and the jealousy and ill feeling toward each other that this sometimes caused - 28%. Differences also existed due to each AFI developing independently and uniquely;
- geographic distance between AFIs, which led to few opportunities to communicate - 24%. Within this category were concerns that a support network for stronger AFIs was needed. (NACCA through support from DIAND, has provided a diagnostic service for AFIs needing help); and
- varying stages of development among AFIs has led to different problems being faced at different times among AFIs, which also led to less than optimally productive NACCA meetings - 17%.

Those identifying weaknesses were asked what could be done to improve this situation. Exhibit II identifies key informants suggestions for the problems they identified.

Exhibit II - Suggested Slutions Rlated to Identified Weakness in AFI Relationship

Weakness	Suggested Solution
Inadequate sharing and a sense of competition among AFIs	• Increase resources geared towards sharing; • Creation of regional networks; • Government standardize program delivery; • Government provide similar funding for all; and • Government initiate objective evaluation criteria for amount of ACFDC operating grants (beyond ABC mandate).
Different funding regimes between ACCs and ACFDCs, and general differences across AFIs	• Increase partnerships among ACCs and ACFDCs; • Encouraging mergers; • More clearly define the mandates of ACCs and ACFDCs; and • Having NACCA share it’s “best practices” report. (This much anticipated report was nearing completion during our data collection period).
Distance	• Increase the number of meetings between regional AFIs; and • Use new means of communication, such as videoconferencing.

Varying stages of development among AFIs	• Ensuring NACCA projects were applicable to as many members as possible; and • Sharing NACCA's best practices report.

Relationship between NACCA and AFIs

Three-quarters of key informants described the relationship between NACCA and the AFIs as good. But the others defined the relationship using words such as "spotty" and "a bit strained". Those sharing this minority view identified that NACCA of late had become self-serving, appeared as though it was engaged in empire-building, and had forgotten that it was a representative body and member-driven. Issues raised by this minority group were the need to make NACCA more accountable, the need to clarify the NACCA mandate in order to determine whether it was a service-delivery organization or an advocacy group, and the disjointedness between what NACCA provides and what AFIs at the front line require. We were told of some AFIs re-thinking their support for NACCA and of at least one that had pulled out of NACCA. One core concern appeared to be whether NACCA was becoming a competitor for products that AFIs might deliver. This suggests that some, albeit a minority, see problems in the relationship between NACCA and AFIs.

Slightly less than 60% of the views expressed by key informants noted NACCA's position as a facilitator of communication as a strength or potential strength in the relationship between NACCA and the AFIs. This included it's potential role as a national network for AFI communication, as well as it's ability to distribute information, such as best practices and common training packages. Slightly less than 40% of mentioned strengths were the ease at which S&T (IRB was also mentioned by one key informant) could be accessed through NACCA as a strength. A small number identified the NACCA Board as a strength. (The NACCA Board is comprised of a representative from each member AFI Board).

Weaknesses of the relationship between NACCA and AFIs, and the proportion by mentioned weakness, were:

- program delivery - 31%. Because of the diverse needs of AFIs, much of NACCA's programming did not address particular AFI needs. Other AFIs were disappointed in NACCA's deliverables, while others felt that NACCA's very involvement in program delivery was a weakness;

- NACCA was becoming sidetracked, was not following its mandate or was undertaking projects that had not been approved of by it's members - 27%. Similar responses included a lack of focus on the part of NACCA, or a change in NACCA's focus without a proper consultation with membership, and a general lack of accountability on the part of NACCA;

- diversity of the membership and the sheer size of the region being served by NACCA - 21%. Those with this view felt individual concerns were not always addressed at NACCA meetings. Some AFIs complained of feeling left out of the process as a result. Given the initial involvement of ACCs to set up NACCA, CFDCs felt like “poor cousins” in the process; and

- general lack of communication between NACCA and the AFIs - 21%.

Suggestions for improvement varied according to the perceived weakness. These are noted in Exhibit III.

Exhibit III - Suggested solutions related to identified weakness in NACCA/AFI relationship

Weakness	Suggested solution
Program delivery and NACCA deliverables	• Greater marketing from NACCA to ensure that AFIs were aware of the products available; • Make all government programs available to all AFIs; and • Ensuring that NACCA “roll out” its certified business training modules and best practices.
NACCA becoming sidetracked from its original mandate	• Engage in a process whereby NACCA received more direction from its members, paid attention to that advice and reported back to them on what was being done; • More openness with the membership. • Restructure NACCA; and • Withhold NACCA funding if it continued to operate without proper governance and accountability.
Diversity of membership	• NACCA representatives making local visits; and • Increase funding for members to meet and deal amongst themselves on a regional basis.
Lack of communication	• Increased communication and openness by NACCA.

Summarizing suggestions as to how the relationship between AFIs and NACCA could be improved:

- slightly more than one-half mentioned that better more open communication was needed between NACCA and the AFIs. This included more travel on the part of NACCA to the AFIs; increased member meetings; and an increased emphasis on regional communication, including increased regional meetings and potentially regional offices;

- almost one-third mentioned that AFIs needed to re-evaluate and clearly define what NACCA's role should be. NACCA requires top-down changes to re-focus on the role that AFIs set for it; and

- remaining responses mentioned an increased level of co-ordination between NACCA, the regional representatives, and the AFIs.

Section 4 -
Findings on Impacts and Lessons Learned

Introduction

This section assesses two issues of the AFI and ATC summative evaluation: impacts and lessons learned.

Impacts

Services of ACCs and ACFDCs and their Impacts

AFIs offer a broad range of business support and financial services. Exhibit IV compares services offered by ACCs and ACFDCs. The exhibit suggests there is limited commonality within, and even less across, the ACC and ACFDC groups in terms of the business support and financial services they offer. Only pre-care and post-care was identified by all ACFDCs. However, only 23% of ACCs said they offered this support/service although more might under BSO.

Exhibit 1V

	ACC	ACFDC
Pre-care	23%	100%
Post-care	23%	100%
BSO	55%	--
AYBI/FNIYBP*	64%	48%
XDO	23%	4%
Workshops, training, business support and counseling	23%	--
Counseling and workshops	--	39%
Counseling and mentoring	--	17%
Insurance, savings bonds, and lines of credit.	18%	
Information services and libraries	--	9%
Other loans (term, summer student business, agricultural)	5%	4%

* First Nation and Inuit Youth Business Program (FNIYBP) is a program of DIAND that has been cancelled.

Eighty per cent of key informants felt the supports and services AFIs offered had a very positive effect on the performance of Aboriginal business. The remainder felt the impact was not as positive as it potentially could be, because of a lack of resources to provide the needed services.

Relatively few AFI clients identified using other programs and services of the AFIs they had dealt with. Those who did viewed them highly. Potentially AFI clients receiving pre- and after care do not understand that this was a service separate from a "normal" loan through a bank. Supporting this assertion, 60% of those who needed a business plan suggested they had been offered assistance to prepare it by the AFI. Clients rated their loan experience highly especially the staff that they had worked with.

Impact on Aboriginal Businesses

In terms of AFIs impact on the development of Aboriginal entrepreneurism, key informants felt it was :

- extremely significant–48%;
- very significant–30%;
- significant–20%; and
- neither significant nor insignificant–2%.

Key informants were asked what positive and negative impacts had the network of AFIs had on Aboriginal entrepreneurism. In terms of positive impacts, most mentioned the impact that the $1 billion investment through AFIs would have for Aboriginal businesses. They suggested that numerous good business ideas would never have been able to "get off the ground" without the support of the AFIs.

There were few negative impacts mentioned. Individual responses included; some problems of jealousy within the community; the difficulty of collecting on loans from people you know; the occasional treatment of AFIs as a "hand-out" organization, and the need to change this mind set, and; the high interest rates charged by AFIs.

Key informants' views on the significance of the contributions made by AFIs to the development of the Aboriginal economy were high:

- 38% rated it extremely significant;
- 32% rated it very significant; and
- 30% mentioned the impact was significant.

Virtually all key informants said AFI programming had improved access for Aboriginal businesses to other sources of financing, beyond the loans available through an AFI. When asked how AFI programming had improved access:

- 41% mentioned that AFIs had the potential to build the credit, equity, and bankable status of Aboriginal entrepreneurs' businesses who then go on to other sources of financing. This impact occurs in the longer term;

- 33% mentioned that AFIs improved access to other sources of financing through partnerships made at the loan's inception with other sources of funding, such as banks, governmental departments, and private investors;

- 13% of key informants mentioned that they improved access by making entrepreneurs aware of what other sources of funding were available, by referring them and by assisting them in the application process; and

- 13% of key informants made mention that they provided the leveraging needed for Aboriginal entrepreneurs to approach mainstream lenders.

Three-quarters of AFI clients suggested their probability of obtaining a loan without the AFI was unlikely to extremely unlikely with almost 40% in the "Extremely Unlikely" group. Slightly more than 60% suggested the probability of their businesses' success, without the help of the AFI as unlikely to extremely unlikely with 32% in the "Extremely Unlikely" group. In contrast, all rated their businesses' success, with the help of their AFI from likely to extremely likely with 44% in the most positive category.

Unintended Effects

Most key informants saw no unintended impacts of the AFI network on Aboriginal business development. A small number said that if there were any unintended impacts, they were positive. Individual responses within this "positive" category of unintended impact included; the best practices of AFIs "rubbing off" on other Aboriginal businesses; working within a community leads to development on a greater scale than the mere financial impact of the money loaned, and; successful Aboriginal entrepreneurs act as role models within the community. One key informant mentioned that there needed to be an entire teaching component to accompany loans in the early years as their clients could not understand loans or loan repayment.

Fewer key informants mentioned that AFIs had had unintended negative impacts. Individual responses were; the success of AFIs might mask the measurement of the real need for capital (presumably larger than the $1 billion figure); the sense of dependency that forms among Aboriginal businesses towards AFIs; when clients of AFIs go into receivership, it has a very negative impact upon the community; and inappropriate loans being made such as mortgages or personal loans which are outside the mandate of the AFIs.

Broader Impacts

Key informants were asked how much the AFIs have contributed to nationally and internationally recognized Aboriginal businesses in traditional and "new economy" industries. Many key informants were unable to answer the question. A few mentioned that AFIs had had some degree of impact. They suggested that loans to the tourism sector, traditional clothing makers and high tech firms fell within this category. The remainder of the key informants were unsure, or felt that there was little if any impact. Many qualified this response with the statement that the role of the AFI was in developmental loans and capacity-building at the local level, not the national or international level.

Key informants were also asked to comment on how much the AFIs have contributed to an Aboriginal economy that was able to compete without taking away from future generations ability to compete in the marketplace. While one-quarter of key informants either had no comment or were unsure, the remainder answered quite positively. Many mentioned that community impact and sustainability were key components in loan assessment. The loan assessment would ensure the market was not saturated for example. Others replied that the infrastructure being built within the community would only serve to increase future generations' ability to compete.

Tools for Assessing AFI Network's Impact

Key informants assessed whether the right tools were in place to effectively assess the AFI network's impact on the Aboriginal economy. Of those who commented 60% said no while 40% felt the right tools were in place. Of those who answered that the right tools were in place, the most common example of assessment tools was the information that AFIs provide to NACCA.

Of those key informants who answered the right tools were not in place, there was no consensus on what the right tools would be. Various responses included:

- a tool that would capture the number of jobs created and the wealth of the community;
- a measure of economic activity by the business and how that contributes to the Aboriginal community and wider economy;
- basic business statistics of clients who have been assisted;
- the creation of a national information bank into which AFIs could feed data collected in-house;
- new measurement tools that emphasize regional differences; and
- an ABC or NACCA-led request for particular statistics, which the AFIs could provide.

Use of IRB and EA

We asked whether key informants felt that Interest Rate Buy-down and Enhanced Access were providing needed funds for AFIs. Many had no experience with the programs and chose to disqualify themselves from commenting. Of those who did respond, over 90% believed that IRB and EA were providing needed funds. Of the few who answered that IRB and EA had not provided needed funds, supporting comments included the paperwork was too extensive for the benefits received, and that IRB had not worked in the past.

Lessons Learned

Lessons in Success of AFIs

All key informants felt that AFIs were successful. About 10% however qualified their statement that some AFIs were successful and some were not, or that financially AFIs were unsuccessful, but in terms of deliverables they were successful.

The most important factors leading to success were said to be:

- AFI's unique position within the community. Being in the community, having knowledge of the community, being locally developed, and being flexible to the needs of the community, were all mentioned as factors of importance by 53% of key informants;

- the role of competent staff, management teams, and committed volunteer boards were mentioned as being an important factor in the success of AFIs by 25%; and

- twenty-three per cent identified other responses including; Good policies and procedures being in place; Transparency of options; Expediency of filling requests, and; Implementing successful business plans that work with Aboriginal culture; Good reputation/credibility in community; Service to client; and separating politics from lending.

Lessons in Success for AFI Clients

AFIs in our case study, tended to offer other programs and services in addition to loans in the belief that more were better for their clients. While developmental loans were their principal vehicle or tool for business development other programs and services were seen to be highly complementary.

Developmental loans were seen to be unique for two reasons. First, they provided access to capital that was unavailable to clients, especially those in more remote communities. Second, the process of applying for and receiving developmental loans offered Aboriginal clients an introduction into business and financial planning and eased them into taking responsibility for their finances in a new and previously untried manner.

AFIs in the case study identified a number of business and financial successes for clients of developmental loans. Some attempts at entrepreneurism fail. However this is not due to receiving a developmental loan. As one AFI identified: "Receiving a developmental loan has never hindered a client."

Lessons in Delivery of Developmental Loans

AFIs in our case study identified a number of lessons related to using developmental loans:

- developmental loans are inherently high-risk. There is a requirement for more "up-front" due diligence including an investigation into references, and ensuring that a support network exists for all loan recipients;

- for first time recipients, large projects should be discouraged, as a rule. Clients should be encouraged to "start off small" and "not bite off too much";

- borrowers should have at least some form of equity, and community support. They should also have a functioning business plan, which should be continually used as a reference point;

- AFI should encourage the use other sources of loans, including traditional lenders such as banks, when they exist. There is sometimes an unhealthy tendency to "hang onto" clients, some thought; and

- large distances may separate the AFI and client. An enhanced system of communication, such as video-conferencing, might lead to greater entrepreneurial success.

While key informants had varied examples of when not to use developmental loans, the common guidance on how to ensure success was to base loan decisions on a realistic understanding of the community being served. The social benefits of a proposal, such as providing a community with Internet access, or starting up a "new technology" business, should be weighed critically against the applicability of the proposal to the community. Several case study AFIs singled out eco-tourism as very "high-risk".

Clients of case study AFIs identified what they liked most about their developmental loan experience. Liked most was the helpfulness, honesty, expertise, professionalism, politeness, and co-operation of the staff involved. Key informants also appreciated the "one-on-one" communication with AFI staff, and the fact that staff made them "feel valued". Some key informants also commented that they were impressed by the timeliness of the process. A few appreciated the transparency of the process, and how they were led "step-by-step" through the application. Finally, there were those key informants who also mentioned that the best part of the experience was "getting the money".

When asked about problems encountered in receiving a developmental loan, one-half identified that they had none. Of those with problems: three mentioned high interest rates; two mentioned the distance between themselves and the AFI office; and one each mentioned: the time it took to receive the loan; the excessive and mandatory fees for the use of AFI lawyers; and that AFIs do not have enough funding to support their clients.

Implementation Lessons

Key informants identified what factors facilitated AFI implementation and delivery. Factors mentioned were:

- the initial start-up funding, as well as continued government funding, including ATC was mentioned by 33%;

- thirty-three per cent mentioned the role of the community had facilitated implementation/delivery. Mentioned were: Local committee that pushed for the AFI; Close ties to the community; The Board of Directors being made up of local community members, and; The comfort between the community and the AFI;

- seventeen per cent mentioned the presence of qualified, properly trained staff;

- eleven per cent mentioned the creation, and on-going work, of NACCA; and

- six per cent mentioned the presence of strong policies and procedures being in place.

Key informants were then asked what had impeded implementation/delivery. Comments were:

- 46% mentioned that a lack of initial funding, a continued lack of funding and resources, and a dwindling capital base had impeded implementation and delivery;

- 30% felt that ABC actions had impeded implementation and delivery such as cutbacks in funding and the arbitrary nature of the supply of capital; not enough attention paid to the program by ABC; and Excessive "red tape" and bureaucracy in dealing with ABC;

- 15% of key informants mentioned the remoteness and cost of travel to the communities being served and the lack of markets in communities; and

- 9% mentioned the lack of training, the lack of skilled human resources, and the high staff turnover.

Section 5 - Conclusions and Observations

This section provides conclusions and observations of the findings reported in earlier sections.

Program Rationale

Key informants were divided on whether the rationale for the AFI and ATC programs was based on the needs of the AFIs themselves or the needs of Aboriginal entrepreneurs. Forty-per cent felt the lack of funding for AFIs was the main reason for the programs. Sixty per cent identified difficulties accessing capital by Aboriginal entrepreneurs (and also communities in the case of ACFDCs) as the main reason.

AFI clients identified a number of characteristics that made them unlikely candidates to receive a loan from a bank. Many had tried but had been turned down for a bank loan while others had only approached an AFI knowing their loan request would not be successful elsewhere.

Needs by Aboriginal entrepreneurs and needs by AFIs for capital are compelling reasons for the AFI and ATC programs. However the need by AFIs is a derived need that would not exist without the needs created by the access to capital difficulties of Aboriginal entrepreneurs. As a result the primary rationale appears to be related to the needs of Aboriginal entrepreneurs caused by difficulties accessing capital. A secondary rationale is based on the needs of AFIs caused by this primary need.

This rationale for the program is further strengthened as the program and its activities are consistent with the mandate and expectations of the department, the Federal government and expectations of ABC, AFIs and other stakeholder organizations.

Design

Related to the design of the AFI/ATC programs.

- Most saw the programs as consistent with and relevant to the overall goals of ABC, AFIs, and other stakeholder organizations.

- Although virtually all see improvements or increases to loan capital and financial and business services many still commented that they remained insufficient to the need.

- Most believed that the AFIs had been provided the tools, skills and training needed to operate as effective financial and business organizations. However there were concerns that Support and Training (S&T) supported too many one-off studies by AFIs. Some NACCA developed training packages are awaiting accreditation and use.

- Two-thirds felt the role played by NACCA related to ensuring the quality of the products or services offered by AFIs had been the right one. About 60% felt NACCAs role related to quality was at least significant. Activities of NACCA in support of this role were:

  - central services provider;
  - advocate;
  - network; and
  - trouble shooter.

- About one-third wanted some different role for NACCA but no clear suggestion emerged as to what that role should be.

- Only a small number of potential examples of duplication or overlap between AFI/ATC and other financial and business programs were said to exist. Most instead felt there was complementarity and adequate coordination between the various programs.

- The relationship between ACCs and ACFDCs was one of complementarity. A majority felt there was adequate co-ordination between ACCs and ACFDCs.

- Most felt that AFIs could not operate independently from government. Those that did suggested long time lines or other conditions for independence.

Service and Delivery

One-half of key informants expressed concerns about the operations and mandate of AFIs. Concerns were wide ranging but most dealt with operational aspects–particularly a lack of efficiency.

Most felt there were proper operational, financial and management controls in place to report on the activities, results and impacts of AFIs and NACCA on a timely basis. Most with this view felt that NACCA did a good job in asking for information, consolidating it, and sharing it with AFIs. A minority voiced concerns about the adequacy of controls particularly the lack of consistency.

A large number of practices or delivery processes were identified that contribute to AFI success particularly its people; effective policies and procedures. The development of AFIs was assisted through networking opportunities, NACCA, and supports including ATC, S&T and AFI (BSO and AYBI) programming. The lack of these same factors was felt to reduce the success or inhibit the development of AFIs.

Cost-Effectiveness

Slightly more than one-half believe that AFI programming, delivered by ABC, was efficient and cost-effective. Many said delivery was improving seeing advantages from the movement of the locus of delivery to the regions from headquarters. Most concerns about AFI program delivery suggest turnaround times in dealing with ABC were lengthy–a result of excessive administration. Some felt programming did not reflect the needs of the clients, and that ABC had a lack of understanding of the problems faced by AFIs.

Eighty per cent felt delivery of ATC was efficient and cost-effective through NACCA.

AFIs were judged to be the most cost-effective mechanism to deliver higher risk or lower-security lending to Aboriginal businesses. None could identify an alternative that could be more cost-effective.

Client Reach

The AFI networks' coverage of Aboriginal entrepreneurs is reasonable but there remain gaps. A very few clients of case study AFIs identified the distance between them and the AFI as a problem.

The relationship among AFIs is generally positive despite AFIs remaining independent and competitive. Strengths are communication, networking, and co-operation. Weaknesses are: not enough sharing; differences in funding; geographic distance which limits communication opportunities; and varying stages of development of AFIs limiting the productivity of NACCA meetings. Suggestions to reduce weakness included: encourage sharing/mergers/partnerships; standardize funding across types of AFIs; encourage more regional meetings and new forms of communication; and share NACCA's "Best Practices" report.

The relationship between NACCA and AFIs was good according to most but there were dissenters. Main suggestions to improve the relationship were: more communication especially regionally; and reevaluate and redefine NACCA's role. Main strengths noted in the relationship were NACCA's facilitation role and the ease by which S&T could be accessed. Weaknesses were: program delivery not meeting the needs of all AFIs, NACCA straying from its mandate, the diversity and sheer size of NACCA's coverage, and lack of communication. Suggestions to reduce weakness included: institute regional/local meetings, improve NACCA's responsiveness to members, make NACCA-delivered programs available to all AFIs and increase marketing of them.

Impacts

AFIs offer a broad range of business support and financial services but there is little in common between the offerings within ACC and ACFDC groups and even less between ACC and ACFDCs groups.

Most felt AFIs had:

- a very positive effect on the performance of Aboriginal business;
- a significant to extremely significant impact on the development of Aboriginal entrepreneurism and the Aboriginal economy;
- improved access for Aboriginal businesses to other sources of financing, beyond the loans available through an AFI;
- either no or positive unintended impacts. Positive impacts included: best practices of AFIs "rubbing off" on others; spillover effects of money invested in a community, and; successful Aboriginal entrepreneurs act as role models within the community;
- a limited contribution to nationally and internationally recognized Aboriginal businesses in traditional and "new economy" industries. Instead the focus was on developmental loans and capacity-building at the local level; and
- provided loans for those who were unlikely to extremely unlikely to receive a loan otherwise. Business success for these AFI clients was judged to be likely to extremely likely after support.

Most did not believe the right tools were in place to effectively assess the AFI network's impact on the Aboriginal economy. There was no consensus on what the right tools would be.

Virtually all believed that IRB and EA were providing needed funds.

Lessons Learned

All key informants felt that AFIs were successful. The most important factors leading to success were said to be AFI's: unique position within the community and staff/Board members.

Factors facilitating AFI implementation and delivery were: funding, role of community, AFI staff and Board members, the work of NACCA, and strong policies and procedures. Factors impeding implementation and delivery were: the lack of funding, remoteness and travel costs, and a lack of training/skills of staff possibly due to high turnover.

Clients of AFIs rated the quality of staff high. Others commented positively on the developmental loan process. Few problems were identified and fewer still were criticisms of the AFI, staff or developmental loans.

AFIs in our case study identified a number of lessons to share related to using developmental loans:

- more "up-front" due diligence, including an investigation into references, and ensuring that a support network exists for loan recipients is required due to their higher risk;

- clients should be encouraged to "start off small" and "not bite off too much";

- borrowers should have some form of equity, community support, and a functioning business plan, which should be continually used as a reference point; and

- base loan decisions on a realistic understanding of the community being served. Potential benefits should be weighed critically against the applicability of the proposal to the community.

Appendix 1 - Acronyms used in the report

ABC	Aboriginal Business Canada
ABDP	Aboriginal Business Development Program
ACC	Aboriginal Capital Corporation
ACFDC	Aboriginal Community Futures Development Corporation
AFI	Aboriginal Financial Institution (the program or an AFI)
AFIs	More than one Aboriginal Financial Institution
AIs	Aboriginal Institution–An AFI that is not an ACC or ACFDC
ATC	Access to Capital
AYBI	Aboriginal Youth Business Initiative
BSO	Business Support Officer
CFDC	Community Futures Development Corporation that is not Aboriginal controlled s
EA	Enhanced Access Loan Fund
IRB	Interest Rate Buy-down
FNIYBP	First Nation and Inuit Youth Business Program
NACCA	National Aboriginal Capital Corporation Association
S&T	Support and Training

Action Plan

Action Plan

Project Title: **Evaluation of Aboriginal Business Canada's - Aboriginal Financial Institutions and Access to Capital Program** **Project: 07/05**

Region or Sector: **Aboriginal Economic Development**

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
1. Level the Playing Field for Aboriginal Financial Institutions - Departments, Regional Funding Agencies and Aboriginal Financial Institutions should work together to better coordinate available funding for Aboriginal Financial Institutions to reduce the disparities caused by funding differences and to build on the experience gained from varied funding models.	Aboriginal Business Canada works closely with Indian and Northern Affairs Canada and Regional Agencies to develop program alternatives, discuss Aboriginal Financial Institutions issues, and share information and best practices. **AGREE:** • Aboriginal Business Canada will continue to collaborate with other Federal Departments and Regional Agencies to better coordinate available funding for Aboriginal Financial Institutions.	Executive Director and Senior Management Team, Aboriginal Business Canada Aboriginal Economic Development	March 31, 2007
2. Review the Direction of the National Aboriginal Capital Corporation Association - Aboriginal Business Canada, in concert with National Aboriginal Capital Corporation Association, should consult with Aboriginal Financial Institutions on the future direction of National Aboriginal Capital Corporation Association and support changes that better reflect the needs of all Aboriginal Financial Institutions.	Indian and Northern Affairs Canada officials regularly meet with the National Aboriginal Capital Corporation Association to discuss Aboriginal Financial Institutions issues and explore way for National Aboriginal Capital Corporation Association to more effectively meet the needs of its members. **AGREE:** • Aboriginal Business Canada supported a meeting of the Aboriginal Financial Institution network to discuss and review the direction of the National Aboriginal Capital Corporation Association. The outcome of this meeting will assist National Aboriginal Capital Corporation Association with development of a plan that more fully considers the needs of its membership.	Manager, Program Services Unit, Aboriginal Business Canada	March 31, 2007

Action Plan

Project Title: Evaluation of Aboriginal Business Canada's - Aboriginal Financial Institutions and Access to Capital Program — **Project: 07/05**

Region or Sector: Aboriginal Economic Development —

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
3. Further investigate other Concerns from the Evaluation - Aboriginal Business Canada should consult with Aboriginal Financial Institutions to better understand their concerns and to set a plan to deal with those requiring attention:	Aboriginal Business Canada through its network of regional offices, headquarters staff and stakeholders are made aware of the issues and concerns affecting the Aboriginal Financial Institutions network. With respect to issues raised Aboriginal Business Canada undertook a study in 2006 to assess the health of Aboriginal Financial Institutions network that has led to development of a core set of financial indicators. **AGREE:**	Institutional Development Officers and Program Services Unit, Aboriginal Business Canada	March 31, 2007
• Aboriginal Business Canada should work with National Aboriginal Capital Corporation Association and the Access to Capital Board on ensuring consistency around a core set of financial indicators.	• Aboriginal Business Canada has been collaborating with Aboriginal Financial Institutions and stakeholders to develop and implement a core set of financial indicators to monitor the financial and operating health of the Aboriginal Financial Institutions network.		
• Aboriginal Business Canada could work with National Aboriginal Capital Corporation Association and the Access to Capital Board to ensure skills across the Aboriginal Financial Institution network are developed through the provision of standardized training supported through Support and Training funding.	• Aboriginal Business Canada in conjunction with National Aboriginal Capital Corporation Association and the Access to Capital Board has developed a standardized training package for adoption and use by the Aboriginal Financial Institution network. The training package focuses financial analysis, business plan analysis and strategic planning.		
• When there are clear advantages to amalgamations, mergers or partnerships Aboriginal Business Canada and other government stakeholders could encourage discussions toward these ends among all parties.	• Aboriginal Business Canada will continue to encourage opportunities for greater co-operation and partnerships amongst Aboriginal Financial Institutions and stakeholders, including mergers and amalgamations.		