

OPINION

Is it time to build a strong Canadian Aboriginal focused banking system?



THE IMPORTANCE OF AN ABORIGINAL BANKING SYSTEM

Author Allan R. Kirby

There is no denying the importance of a sound banking system within a sovereign country. Banks are the economic drivers to capital expansion and help with the creation of wealth. This is because banks take funds in the form of deposits, then lend that money out and make investments, with the idea of generating returns that exceed their costs. This allows them to repay depositors when required with interest. Additionally, when making loans and investments, banks try to ensure they limit the use of their funds in investments that are deemed too risky or unprofitable. Besides being risk-averse, banks also act as advisors for businesses and industries; as well as helping sovereign nations develop trade within borders and externally as well.

LARGEST ABORIGINAL BANK

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The question becomes; should we take a more serious look at the development of an aboriginal banking system such as the enhancement of current native-focused banks or creating newer banks to the scale required to meet the capital needs of aboriginal communities? To begin with; focusing on a stronger banking system would allow aboriginals to reduce their reliance on non-aboriginal banks that;

1. May not share the same economic vision.
2. May hinder the ability of aboriginals to self govern.
3. Will not build a true economic force within the aboriginal community

Armina Ligaya, Canadian Press writer, reported "The total amount of personal and business income within Canadian indigenous communities totalled about \$33 billion in 2016, nearly triple the \$12 billion in 2001, according to Brent Mainprize, a professor at the University of Victoria's Gustavson School of Business who teaches entrepreneurship and Aboriginal economic development."

Canada's larger banks are getting involved with longer-term large aboriginal capital projects which comes as no surprise given their size and scale. They can easily meet the funding needs for major capital projects. Where I have concern is their willingness to work with;

1. Smaller community projects and local businesses.
2. Entrepreneurs looking for seed money to help fund their businesses.
3. Families as well as individuals.

The major banks will do what is in the best interest for them and their shareholders. This does not necessarily mean they will always have the best interests in the communities they serve. I am not arguing that major banks are bad financial institutions, I am just highlighting the fact that they have their own interests to follow, which may run differently to the interests of aboriginal communities.

Barriers do Exist:

Unfortunately, it is necessary to highlight a few barriers that create issues with regard to aboriginal communities developing their own banking system that could flourish. However, it needs to be clearly understood that these are highly complex problems related to Self Governance, Property Rights, and Development Challenges that could take decades to resolve.



Self Government Issues:

Many Aboriginal people see self-government as a way to preserve their culture and attain greater control over their land, resources, and administration of laws and practices that affect their lives. Aboriginal groups have argued they have an inherent right to self-government and the right of self-government is recognized in Section 35 of the Constitution Act, 1982. However, the major issue with the amendment is that although aboriginal rights are recognized, the act does not define what those rights are.

As a result, the government, courts, and aboriginal groups have to rely on the Indian Act to help make decisions. But let's be clear this is legislation that was passed in 1876 and really is not applicable to today's modern-day challenges. Therefore, even though self-government is recognized, it becomes a very complicated process for aboriginal groups to negotiate for complete jurisdiction. More often than not, Aboriginals get complete jurisdiction in some areas, but limited powers in others, which often can be unclear.

A second issue with self-government is that aboriginals believe they were the first people to govern Canada and never willingly surrendered their autonomy. As a result, some leaders in the aboriginal community such as Stó: lo author Lee Maracle consider that Section 35 reinforces colonialism by recognizing Canadian law as supreme[2]. They believe that it is better instead to deal with the situations through diplomacy as would be expected under a true nation-to-nation relationship.

This is why a true aboriginal banking system is needed. The ability to self govern while dependent on external banks hinders the aboriginal community's ability to govern itself. If individuals, small businesses as well as local governments have difficulty getting access to capital through loans and investments, their ability to effectively govern will be affected. Additionally, building a strong financial system within the aboriginal community would not only allow for less reliance on non-aboriginal banks but ensure profits are kept within the aboriginal community, thus allowing for growth and economic expansion. There is no guarantee that non-aboriginal banks will reinvest profits derived from aboriginal activities back into the communities. As I explained before, self-government could be hindered further if banks exit the aboriginal markets during downturns in the economy.

Aboriginal Property Rights:

One major issue that currently affects aboriginal banking is First Nations' century-long issue of individual land rights and its effects on aboriginal finances. Most Canadians are likely unaware that First Nation communities are subject to strict land ownership rules written in the Indian Act. Simply put, aboriginals do not own the land they live on. This is significant because if aboriginals can't own land, they have no assets with which to use in order to secure mortgages or get loans to start a business. Additionally, no hard assets can also mean aboriginals could end up with poor credit scores or no credit score at all. This exacerbates the challenges of accessing financing from financial institutions. Hernando de Soto's book, "The Mystery of Capital" highlights the primary causes of poverty in the world is the lack of clear property rights. He notes that the world's poor often have the use of property upon which they grow crops, build homes, and operate businesses. He also notes, however, that the poor generally lack clear title to the property they use, and are thus locked out of the formal, legal economy—and that is the root of their poverty. This is why many aboriginals believe greater autonomy needs to start with individual land rights[1].

Simply recognizing property rights is only a first step. There is also the need for a financial intermediary such as a bank to be willing to convert those properties into loans to help with economic growth and investments. The issue is double-sided. Will aboriginals receive the best terms or will non- aboriginal banks see aboriginals individuals, families and small businesses a higher risk and provide terms more favourable to the banks?

The lack of aboriginal banking will challenge indigenous businesses, especially in more remote reserves to obtain capital in order to develop and support their business. Even if an aboriginal business has some access to capital through a non-aboriginal bank, it still might not be enough to support or expand their business due to a lack of the non-aboriginal banks' understanding of the business. This is why having a strong well informed aboriginal bank would have the ability to better assess the needs of their clients and ensure proper terms based on normal banking risks assessments but also having the knowledge to understand the capital needs and abilities of the aboriginals to succeed.

Development Challenges:

Indigenous communities are typically small and are located in rural low density or remote areas. Their geographic location and characteristics have profound influences on the economic development opportunities of the population living in these regions. These barriers can affect aboriginal communities to develop viable businesses and secure funding from a bank, as these areas could be considered higher risk. One of the biggest challenges to business development today has to do with technology.

Technology Investing is Critical:

Developing technological capabilities such as high-speed internet and technology platforms that are specifically focused on helping facilitate aboriginals entrepreneurs to build scalable products and serves to help them succeed is critical for success. Aboriginals have an incredible wealth of skills and abilities that are currently not being utilized as a result of technical issues that have long been identified but not addressed to the level they could be. Additionally, modern infrastructure is needed to enable the ability of aboriginals to receive access to education, health care, social services and enable innovation and economic development.

There is a disparity between northern Canada and its southern neighbors, which needs to be rectified. Weather conditions and isolation are not a barrier. Iceland, for example, has almost achieved a 100 percent internet connection rate. Additionally, more than 75% of the country's homes have access to direct fiber services. This is incredible but it's almost non-existent for most Canadian aboriginals.

A strong aboriginal banking system along with private/public financing and innovative capital projects may expand the government's capabilities to solve the infrastructure problems plaguing many aboriginal communities. As an example, the consortium of First Nations and Northern Manitoba municipalities have joined forces with Fairfax Financial Holdings and AGT Food & Ingredients to purchase the Hudson Bay Railway and Port of Churchill from former owner OmniTrax.

Hudson Bay Railway is a Canadian short railway operating over 1,300 kilometres (810 mi) of track in northeastern Saskatchewan and northern Manitoba that ends at the Port of Churchill .



Conclusion:

This is an oversimplification of the current system as well as the issues with self-government, property rights, and infrastructure development in remote areas. These are all highly complex issues that need to be addressed. Having said that, as a person who has focused on personal finance and community banking for a number of years along with my career, I have learned one thing; building wealth has one critically important benefit; it facilitates the decision making process. When you have wealth you can dictate how you live your life on your own terms most of the time. This can also apply to building a sound banking system for an aboriginal self-governed state. Keeping profits within the community, allowing for capital expansion and building wealth will result in a strong economic community that can live and make its own decisions without subjecting itself to the terms of others.

Helping facilitate expanded growth with aboriginal focused banks such as The First National bank of Canada is a good start. There also needs to be a push in facilitating investment opportunities for both aboriginal and non-aboriginal Canadians. Given the rise of Environmental Social and Governance (ESG) focused investors and the rise of impact investing, there are plenty of opportunities for capital to flow to and from a banking system that is focused on aboriginal investments.

Finally, since there is no guarantee the major banks will continue to support the economic interests of aboriginals over the long term during times of both difficulty as well as growth, the case can be made that over the long term, aboriginal communities will be better served with a banking system that focuses on the economic interests of the aboriginals as a whole.

A strong banking system could be developed within aboriginal communities inside the current Canadian system through the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Consumer Agency of Canada (FCAC) or possibly under their own autonomous aboriginal jurisdiction.

References:

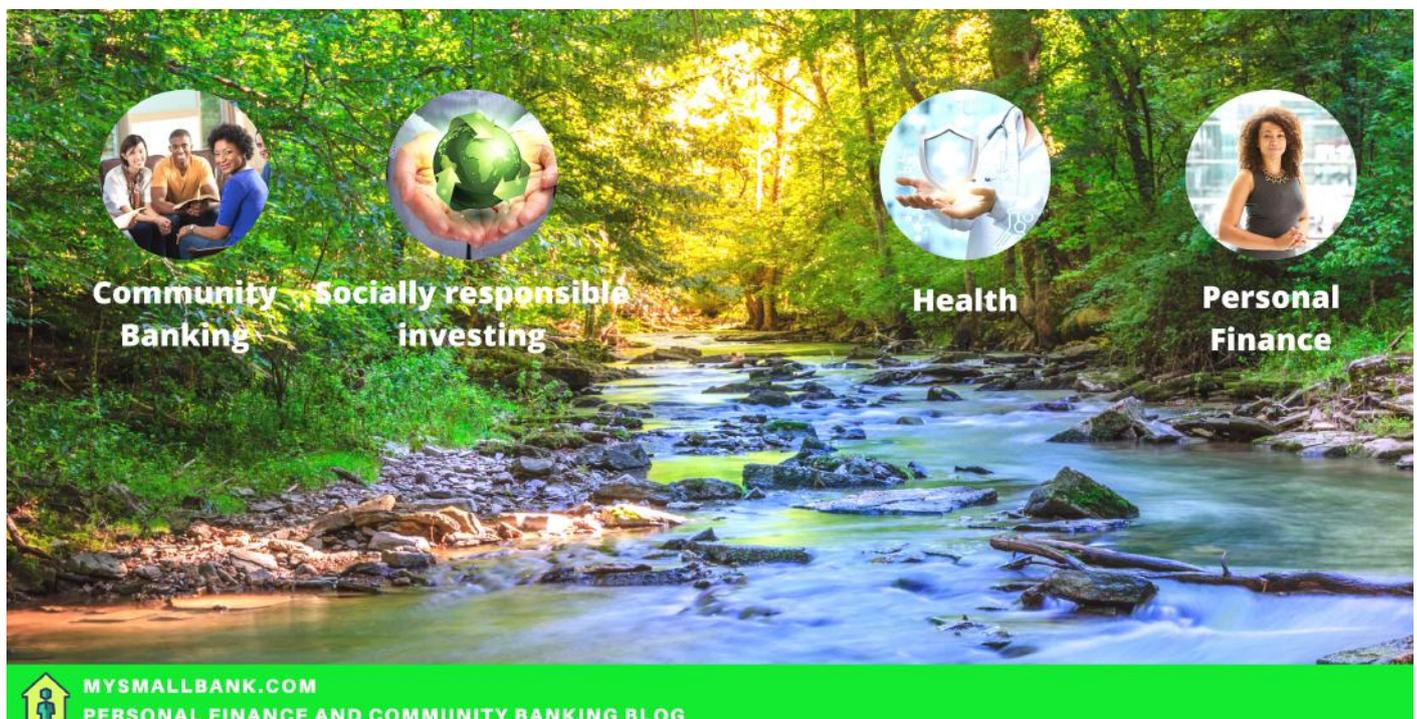
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WHAT CAN BANKS DO:

Banks Provide an Efficient Mechanism to Pool Funds to Finance Economic Activity.

Banks Unlock capital and create wealth.

Banks Provide Efficient Means of Transferring Value



FIRST NATIONS BANK

OF CANADA

First Nations Bank of Canada

(FNBC) was founded in 1996 and is a Canadian chartered bank that provides full-range of personal and business banking services, including loans, mortgages and investments to underserved aboriginal communities across Canada. The Bank's Aboriginal shareholders collectively own over 80% of the Bank, which has 9 full service branches and 8 Community Banking Centres across Canada.

The Bank is a member of the Canada Deposit Insurance Corporation, the Canadian Payments Association and is an approved lender with Canada Mortgage and Housing Corporation and the First Nation Market Housing Fund.

FNBC Branches

Saskatoon, Saskatchewan (Corporate Location)
 300 - 224 4th Ave South
 Saskatoon, SK, S7K 5M5
 Telephone: 1-306-955-6739

Meadow Lake, Saskatchewan
 Enoch Cree Nation, Alberta
 Winnipeg, Manitoba
 Walpole Island First Nation, Ontario
 Cree Nation of Chisasibi, Quebec
 Whitehorse, Yukon
 Yellowknife, Northwest Territories
 Iqaluit, Nunavut

Community Banking Centres

Buffalo River Dene Nation, Saskatchewan
 Cree Nation of Nemaska, Quebec
 Whapmagoostui, Quebec
 Baker Lake, Nunavut
 Pond Inlet, Nunavut
 Kugluktuk, Nunavut
 Pangnirtung, Nunavut
 Arviat, Nunavut