

Rethinking aboriginal business

According to a recent [Deloitte & Touche](#) survey, venture capitalists have a huge amount of cash burning virtual holes in their pockets.

That's good news if you're a small business entrepreneur in the manufacturing and computer software and communications industries, which the VCs are looking at as their preferred investment targets.

But it doesn't mean much to many aboriginal entrepreneurs trying to start up or expand businesses on reserves or in rural areas, says the CEO of [First Nations Equity Inc.](#), a Toronto-based firm that provides financial consulting and wealth management services, and facilitates partnerships between aboriginal and non-aboriginal companies.

'Some of the challenges (aboriginal startups) face is they don't have the typical sources non-aboriginal startups in southern Ontario have, like access to rich family members and to the venture capital networks that exist in towns and cities,' says Brian Davey. 'Also a lot don't have mortgages on homes or equity in their homes, so they can't use that, and lines of credit are not extended by aboriginal capital corporations, which is another typical source people use in starting up their businesses.'

Then there's the location issue, he adds. 'A lot of potential partners that would provide assistance in your startup and that may benefit from your product or service are located outside the rural areas so they're not in the same loop,' says Davey.

'We try to introduce them to these sources in the cities, the angel capital, the non-bank fund providers. We know the loop, we're building that network every day, so we're trying to bring that into the aboriginal markets.'

To help bridge that gap as well, the [National Aboriginal Capital Corporation Association](#) and [CIBC](#) have joined forces to provide loans of more than \$250,000 to aboriginal small businesses.

The NACCA is an association of 52 member aboriginal financial institutions across Canada, 31 of which provide business development loans and other business services. The organization received about \$200 million in federal funding a decade ago to finance high-risk startups, which it has since turned over five times, says NACCA CEO Dan Brant. The loans are provided at a higher interest rate than those normally provided to small businesses by regular banking institutions.

'That's a huge success that has not been replicated by a government program or any other financial institution within the aboriginal sector,' says Brant. 'What we're trying to do is build on the fact we've got a successful infrastructure but it's just touching a small part of the business.'

Currently, there's a limit of \$250,000 on aboriginal financial institute-issued loans. The average loan provided to small businesses by the AFIs is \$40,000, says Brant.

But a recent feasibility study the organization conducted indicates that's not enough to meet the needs of a rapidly expanding sector.

According to a 1998 [Statistics Canada](#) monitor, the number of self-employed aboriginal people grew 2.5 times faster than the national average between 1981 and 1996.

Brant says those businesses tend to be small mom-and-pop type of operations. And, adds Davey, they're probably mostly in urban areas.

'We still have the problem with ones that are on reserves,' Davey says. 'A lot of them still rely on aboriginal capital corporations, and unfortunately, many of those are being maxed out, they've already loaned out all their money so they're short of cash. And because they're the only source, there's a huge demand on them from the on-reserve startup initiatives.'

While major banks have recognized the lucrative opportunities available in financing larger aboriginal companies in the natural resource sector, he says, smaller outfits still struggle for startup financing.

'There are big opportunities on the huge loans, stuff over \$1 million,' he says. 'The banks have already targeted this area, they know it's big and there is not lot of competition at this time.'

Despite the opportunities, though, banks are asking for loan guarantees they don't normally ask of non-aboriginal startups, he says. 'For example, in forestry I've seen situations where the aboriginal forestry company has a contract with a major forestry producer, but even with the contract in hand the banks are saying that's not good enough, they want a loan guarantee from the buyer, which is a double whammy.'

That's not the CIBC's approach, though, says Rob Paterson, senior vice-president of CIBC's small business banking. The CIBC, which was the only bank that responded to the NACCA's request on the loan syndication program, saw the move as a 'great opportunity to help support the growth in the aboriginal community,' he says. 'We're providing mentorship and advice, as well as our experience on how to build up their lending practices.'

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