



BANK OF CANADA  
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**Remarks by Lawrence Schembri  
Deputy Governor  
National Aboriginal Capital Corporations  
Association  
May 5, 2022  
Gatineau, Quebec**

## **Economic reconciliation: Supporting a return to Indigenous prosperity**

I would like to begin by acknowledging that the land on which we gather is the unceded, traditional territory of the Algonquin Anishinaabe. I would also like to recognize that today is the National Day of Awareness and Action for Missing and Murdered Indigenous Women, Girls and Gender Diverse People.

It is an immense honour and privilege for me to have the opportunity to speak with you today.

I greatly admire the National Aboriginal Capital Corporations Association and your dedication to supporting Indigenous prosperity and improving living standards for First Nations, Métis and Inuit across Canada. The successful expansion of your lending to the Indigenous economy is a source of inspiration to many, me included. In fact, over the past three decades, you have issued 46,000 loans worth a total of \$2.8 billion.<sup>1</sup>

These numbers are impressive, and these loans have made a huge contribution to the prosperity of the Indigenous economy.

But we all know much more needs to be done.

The Bank of Canada is committed to supporting you in these efforts. Fostering Indigenous inclusion falls squarely within the Bank's mandate to promote the economic and financial well-being of our country and **all** the peoples within it.

Taking concrete steps toward economic reconciliation is therefore our responsibility too. As a national public institution, we must show leadership.

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<sup>1</sup> NACCA, *Annual Report 2018–19/2019–20: Toward Indigenous Prosperity* (2021).

That is what I'd like to talk about this morning.

Over the next two years, the Bank will reach out and listen to a wide range of Indigenous groups to define what economic reconciliation means for us and for our work. We will look to our existing partners—and, hopefully, many new ones—to guide us toward a common understanding of what our role should be.

By embracing this process—and taking the time to do it right—we hope that the Bank can take a meaningful step toward building trust and strengthening our relationship with Indigenous peoples.

In recent years, my colleagues and I listened to our Indigenous partners. We have learned a great deal about the history of the Indigenous economy, its potential and the challenges and opportunities it currently faces.

We have also begun to support the Indigenous economy through various means, but we need to become more deliberate in our approach. If we are going to advance economic reconciliation with Indigenous peoples, we need a plan that will focus our efforts and guide our actions.

To help restore the prosperity of the Indigenous economy, we want to become trusted partners. And we need to work together to overcome the long-standing obstacles faced by Indigenous peoples and the discriminatory practices that contributed to them.

## **The potential prosperity of the Indigenous economy**

Before contact with colonizers, Indigenous peoples had thriving economies, communities and governance structures.

Manny Jules is chief commissioner of the First Nations Tax Commission and a driving force behind many of the financial innovations I'll be talking about today. At the Symposium on Indigenous Economies that we hosted last November, he described the state of the Indigenous economy before settlement. He said, and I quote:

We paid taxes, had property rights, built, and sustained public and economic infrastructure, had money, and created standards that supported vast and successful trading networks.

We used our jurisdiction to create a public and community sector that supported many innovations in agriculture, land and resource management, products, transportation, science, math, and of course Art.<sup>2</sup>

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<sup>2</sup> Tulo Centre of Indigenous Economics, [“2021 Symposium on Indigenous Economies”](#) (November 29, 2021).

The forces of colonization and assimilation brutally suppressed this vitality, but the Indigenous spirit proves resilient.

We all share the responsibility to help restore this prosperity by advancing the objectives of economic reconciliation as recommended by the Truth and Reconciliation Commission.<sup>3</sup> Indigenous peoples deserve equitable access to education, employment and economic opportunity. The resulting benefits would be substantial for Indigenous communities because their standards of living would dramatically improve. All of Canada would also gain from an Indigenous economy that is more empowered to realize its full potential.

Several recent trends speak to the enormous potential of the Indigenous economy.

For example, the Indigenous population in Canada is young and growing fast. Statistics Canada projects that the Indigenous population will grow by more than 50% by 2041, which is almost double the rate of the non-Indigenous population.<sup>4</sup> The Indigenous population in Canada is also currently much younger—with just less than half being under the age of 25 compared with less than one-third of the non-Indigenous population.<sup>5</sup>

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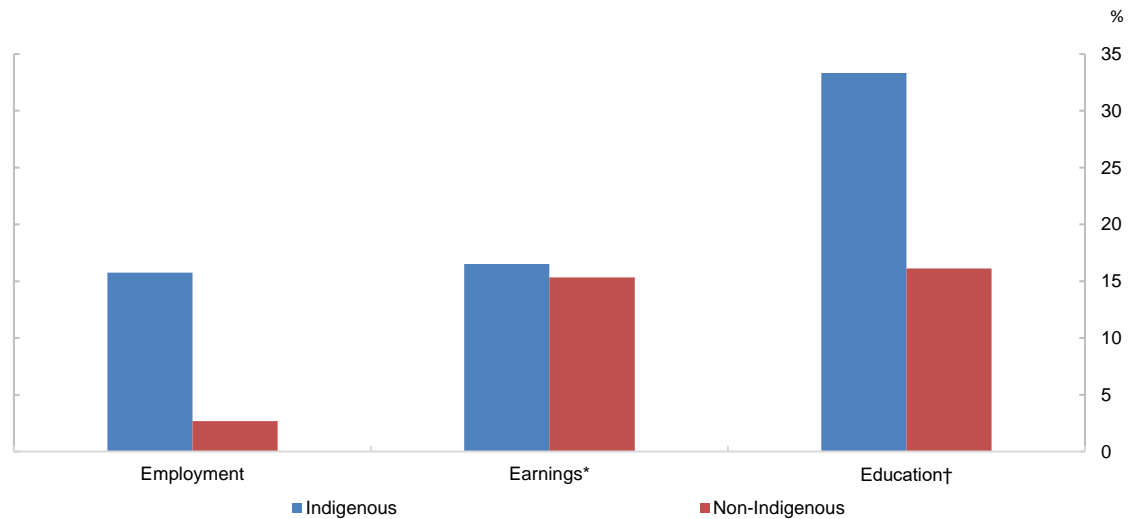
<sup>3</sup> Truth and Reconciliation Commission of Canada, “Call to Action #92,” *Truth and Reconciliation Commission of Canada: Calls to Action* (2015).

<sup>4</sup> Statistics Canada, “Projections of the Indigenous Populations and Households in Canada, 2016 to 2041,” (October 2021).

<sup>5</sup> Statistics Canada, “Aboriginal Peoples Highlight Tables, 2016 Census.” Statistics Canada Catalogue no. 98-402-X2016009, 2017.

**Chart 1: Economic indicators are improving faster for Indigenous populations in Canada**

Total growth from 2017 to 2021, annual data



Note: Indigenous excludes Indigenous people living on reserve and other Indigenous settlements as well as those living in the territories.

\* Growth of average weekly earnings

† Growth in the share of population aged 25–64 with university education

Sources: Statistics Canada and Bank of Canada calculations

Last observation: 2021

On the jobs front, the number of employed Indigenous people grew by almost 45% in the decade between 2006 and 2016. Recent estimates show this trend continuing, with employment among off-reserve Indigenous people growing five times faster than non-Indigenous employment.<sup>6, 7</sup> **(Chart 1)**

In terms of income, the 2016 census found that the median earnings of Indigenous people was 78% of that of the non-Indigenous population.<sup>8</sup> Recent estimates<sup>9</sup> indicate that weekly wages for Indigenous people living off reserve grew at a higher rate than those for the non-Indigenous population **(Chart 1)**.<sup>10</sup> Education, capacity building and the economic opportunities generated by the creation and growth of Indigenous firms are critical to closing this income gap. Clearly, progress toward reconciliation will accelerate these trends.

<sup>6</sup> Statistics Canada, “Labour Force Characteristics by Region and Detailed Indigenous Group,” Statistics Canada table no. 14-10-0365-01 (January 2022).

<sup>7</sup> These numbers exclude Indigenous populations in the territories.

<sup>8</sup> This is up from 70% in 2006.

<sup>9</sup> Between 2017 and 2021.

<sup>10</sup> Statistics Canada, “Average Hourly and Weekly Wages and Average Usual Weekly Hours by Indigenous Group,” Statistics Canada table no. 14-10-0370-01 (January 2022).

Recent developments in education levels are also promising. The percentage of First Nations, Métis and Inuit with a secondary school education or higher grew at a faster rate than that of non-Indigenous people.<sup>11, 12</sup> This trend continued over the last few years<sup>13</sup> as the percentage of Indigenous people living off reserve with a university degree increased at twice the rate of that of the non-Indigenous population (**Chart 1**).<sup>14</sup> A recent study found that these outcomes could be improved by providing better employment opportunities and a culturally sensitive learning environment and curriculum.<sup>15</sup>

In terms of business growth, the Canadian Council for Aboriginal Business reports that the number of Indigenous entrepreneurs in Canada continues to rise. In fact, the increase in self-employment among Indigenous peoples has more than doubled that of the non-Indigenous population in recent years.<sup>16, 17</sup>

Furthermore, Indigenous businesses are performing well. Recent evidence indicates that small and medium-sized enterprises (SMEs) in Indigenous communities export their products and services at rates that are comparable to—or even higher than—non-Indigenous SMEs.<sup>18</sup> Export participation is typically associated with businesses that enhance productivity through innovation.<sup>19</sup> In addition, many Indigenous firms are involved in environmentally sustainable activities.

I don't mean to gloss over the many challenges that continue to hinder Indigenous prosperity. I simply want to stress that tremendous untapped potential

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<sup>11</sup> Between 2006 and 2016.

<sup>12</sup> Statistics Canada, "Aboriginal Population Profile, 2016 Census," Statistics Canada Catalogue no. 98-510-X2016001, 2019.

<sup>13</sup> Between 2017 and 2021.

<sup>14</sup> Statistics Canada, "Educational Attainment in the Population Aged 25 to 64, Off-Reserve Aboriginal, Non-Aboriginal and Total Population," Statistics Canada table no. 37-10-0117-01 (March 2022).

<sup>15</sup> D. Lamb, "Aboriginal Early School Leavers On- and Off-Reserve: An Empirical Analysis," *Canadian Public Policy* 40, no. 2 (2014): 156–165.

<sup>16</sup> More than 62,000 Indigenous people reported that they were self-employed in 2016, an increase of 44% since 2011.

<sup>17</sup> Canadian Council for Aboriginal Business, *Understanding Intellectual Property Awareness & Use by Indigenous Businesses: 2019 Intellectual Property Survey of Indigenous Businesses* (Summer 2021).

<sup>18</sup> A. Bélanger Baur, "Indigenous-Owned Exporting Small and Medium Enterprises in Canada," Global Affairs Canada & Canadian Council for Aboriginal Business (2019).

<sup>19</sup> Canadian Council for Aboriginal Business, *Promise and Prosperity: The 2016 Aboriginal Business Survey* (2016).

exists. This potential will only be realized when private firms and public agencies commit to economic reconciliation. The possible returns should be substantial, both for Indigenous communities and for the entire country.

### **Access to credit and capital—an important barrier**

The challenges Indigenous peoples face when it comes to restoring their prosperity are the direct result of colonial policies that violated their basic human rights and undermined their political and economic sovereignty. These policies have led to geographic and economic isolation, financial dependence and widespread poverty and suffering.

I know you are keenly aware of the obstacles that limit Indigenous economic inclusion, but more Canadians should understand them.

Indigenous peoples face numerous barriers to accessing financial services—most notably, credit and capital—compared with the non-Indigenous population in Canada. For example, by restricting property rights, section 89 of the *Indian Act* established legal barriers to accessing credit. Limiting access to credit has stunted the creation of new businesses and employment opportunities in First Nations communities.

Bank of Canada research has found that remoteness and deficient infrastructure have contributed to limited access to cash, banks and financial services more broadly.<sup>20</sup>

These barriers to financial inclusion—and many others—have increased the cost of living and led to a debilitating underinvestment in Indigenous communities.

Research at NACCA has shown that a lack of access to debt and equity finance creates significant challenges for Indigenous entrepreneurs trying to start and grow their businesses. Consequently, these entrepreneurs tend to rely on personal savings to finance their business ventures. Of all the capital financing provided in Canada in 2013, First Nations and Inuit businesses accessed only 0.2%.<sup>21</sup>

Fortunately, Indigenous institutions have been established to reduce these barriers to financial inclusion.

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<sup>20</sup> See H. Chen, W. Engert, K. Huynh and D. O’Habib, “An Exploration of First Nations Reserves and Access to Cash,” Bank of Canada Staff Discussion Paper No. 2021-8 (May 2021) and H. Chen, W. Engert, K. Huynh and D. O’Habib, “Identifying Financially Remote First Nations Reserves,” Bank of Canada Staff Discussion Paper 2022-11 (May 2022).

<sup>21</sup> National Indigenous Economic Development Board, *Recommendations Report on Improving Access to Capital for Indigenous Peoples in Canada* (September 2017).

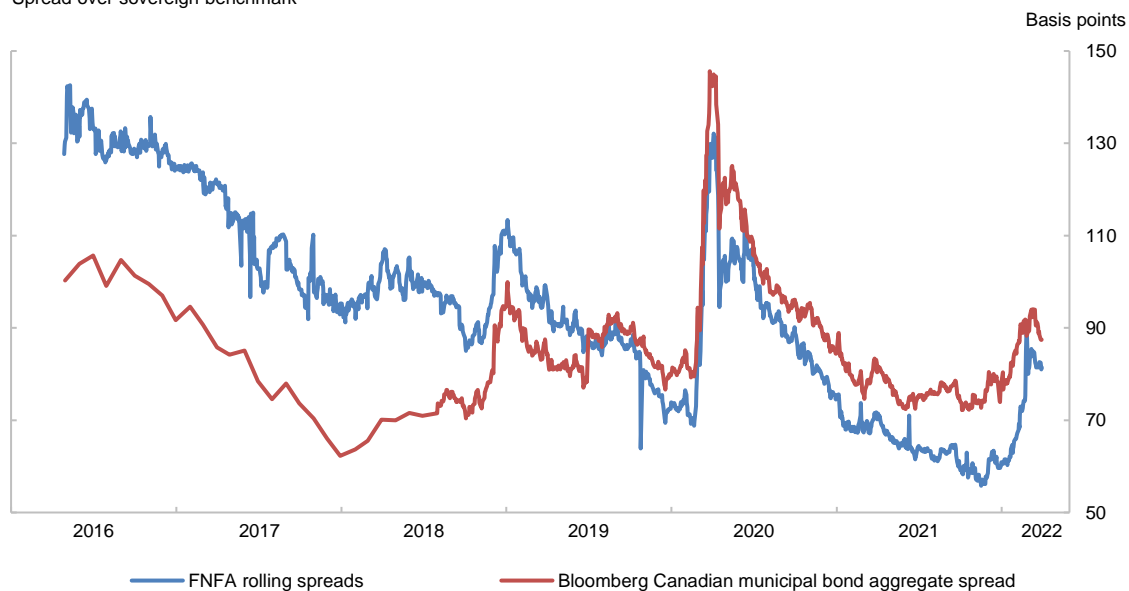
In particular, the *First Nations Fiscal Management Act* (FNFMA) was passed in 2005. The resulting financial framework was designed by First Nations to enhance the local revenue-raising powers of their communities and improve access to capital markets to help finance sorely needed infrastructure.

The FNFMA framework comprises three institutions that collaborate to enhance the capacity of First Nations to access low-cost financing and develop a stronger climate for investment. The First Nations Tax Commission helps First Nations governments increase their flow of revenue. The First Nations Financial Management Board, meanwhile, helps First Nations adopt sound financial management practices and produce reliable financial information that can be used to assess their capacity to borrow and service debt. Finally, the third institution, the First Nations Finance Authority (FNFA), combines the first two elements to help secure low-cost financing by collateralizing community revenue streams and issuing highly rated debentures to the market.

This arrangement represents a First Nations-led framework to get around many of the systemic barriers that continue to impede access to credit, investment and development in First Nations communities.

**Chart 2: Recent FNFA bond spreads are comparable with similar Canadian municipal bonds**

Spread over sovereign benchmark



Note: FNFA is the First Nations Finance Authority.  
Source: Bloomberg

Last observation: March 30, 2022

In fact, the FNFA's impressive track record has enabled First Nations governments to borrow at rates that are comparable to Canadian municipalities, as we can see in **Chart 2**.

Consequently, over 300 First Nations (about half) have opted to join this innovative and effective framework.

Nonetheless, despite issuances from the FNFA totalling \$1.63 billion,<sup>22</sup> access to finance continues to be a significant issue in Indigenous communities. Huge investment gaps remain. A recent report estimated that First Nations communities face a \$30 billion infrastructure deficit, including housing, roads, water treatment, internet access, health centres and schools.<sup>23</sup>

The newly formed Mi'kmaq Coalition—a grouping of seven Mi'kmaq communities in the Atlantic provinces—boasts one of the most compelling success stories to emerge from this unique financial framework. Its acquisition of 50% of Clearwater Seafoods represents the single largest Indigenous investment in the seafood industry.

While this framework has helped First Nations communities obtain better access to capital, it is important to note that individual Indigenous firms—including First Nations, Inuit and Métis—have not similarly benefitted. This is where NACCA comes in.

The Aboriginal Financial Institutions (AFIs) that are part of the NACCA network have made great strides in removing many of the historical obstacles to financing. They provide direct access to finance for many small and medium-sized Indigenous businesses.

Since the first AFIs were founded some 40 years ago, the network that NACCA represents has been remarkably successful.

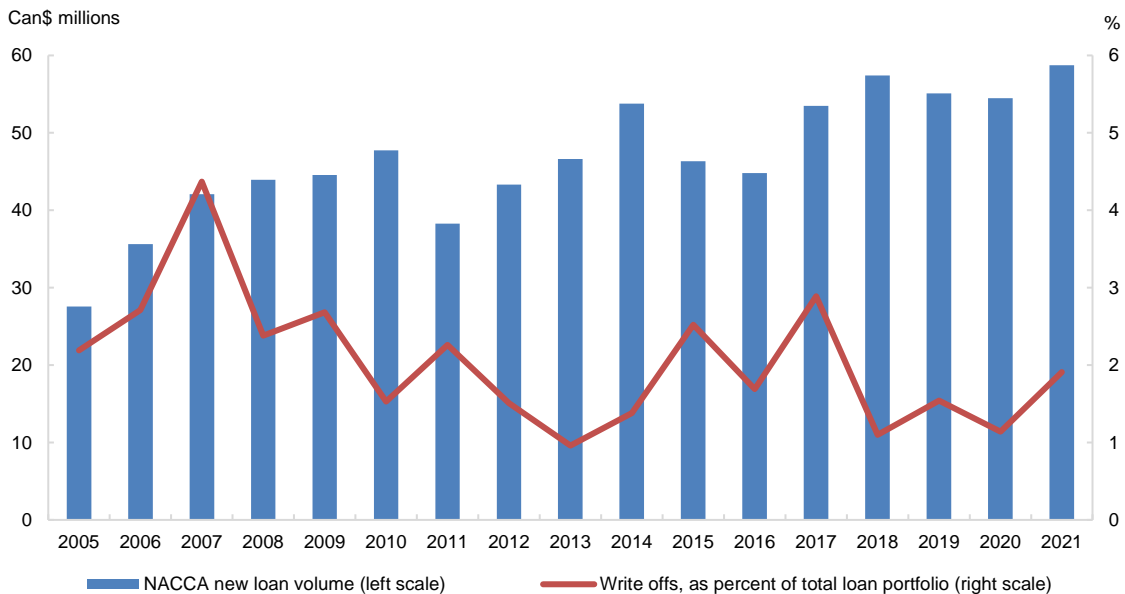
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<sup>22</sup> This amount has been raised from nine debenture issuances since June 2014. External ratings started at A3 (Moody's) in 2014 and have improved over time to Aa3 (Moody's) and A+ (S&P) for the most recent issuance in February 2022.

<sup>23</sup> Canadian Council for Public-Private Partnerships, *P3's: Bridging the First Nations Infrastructure Gap* (2016).



**Chart 3: NACCA has increased its lending while keeping loan loss rates very low**



Note: NACCA is the National Aboriginal Capital Corporations Association  
 Source: National Aboriginal Capital Corporations Association

Last observation: 2021

By building trust and capacity across communities, the network has more than doubled new annual loan volumes since 2005 while keeping loss rates very low (Chart 3).

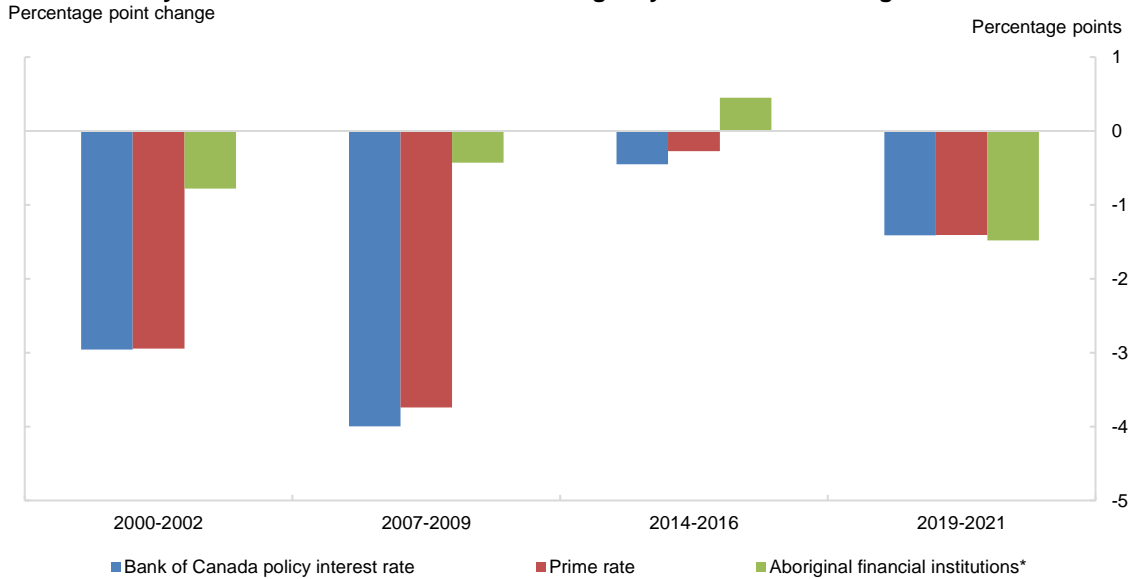
It seems clear that the success of NACCA and the AFI network stems directly from how well these financial institutions know their clients. Working closely to support their borrowers has helped them build strong relationships and a solid understanding of their needs and financial capacity. I am highly optimistic that the new Indigenous Growth Fund will also perform well under NACCA’s leadership.

### **Incomplete transmission of monetary policy**

Despite these successes, more needs to be done to ensure that Indigenous governments, households and businesses have comparable access to financial services.

This is important because these barriers to financial markets have other negative effects. For example, they hinder the transmission of monetary policy to the Indigenous economy.

**Chart 4: Policy interest rate reductions are not being fully transmitted to Indigenous borrowers**



Note: Changes are calculated from annual averages of fiscal years ending March 31.

\* Interest earned (as a percentage of business loans outstanding)

Sources: National Aboriginal Capital Corporations Association and Bank of Canada calculations

Last observation: 2021

To illustrate this issue, let’s consider four times since 2000 when the Bank cut interest rates to encourage borrowing and stimulate demand (Chart 4).

The chart shows that for, most of these periods, interest rates paid by Indigenous businesses on their loans from AFIs did not fall as much as either the Bank of Canada’s policy interest rate or the prime rate charged by banks to their preferred customers. This suggests that monetary policy has been less effective at stimulating the Indigenous economy than other parts of the Canadian economy.

It is worth noting that during the most recent period of monetary policy easing in 2020–21, the relatively large decline in interest earned by AFIs reflected the impact of government policies. These policies enabled AFIs to reduce interest payments during the pandemic.

The main reason for this incomplete transmission of monetary policy to the Indigenous economy is the lack of access to financial services, primarily limited access to market-determined borrowing rates.

### **Other barriers to Indigenous economic opportunity**

Of course, beyond these issues of access to finance, other barriers to Indigenous economic opportunity exist.

For example, limited opportunities for education and skill development adversely affect employment and income outcomes, access to credit, firm creation and economic development. Of particular concern is the fact that fewer Indigenous students are in the fields of science, technology, engineering and mathematics,

at only 40% of the average Canadian rate.<sup>24</sup> The Bank of Canada is trying to address these barriers by sponsoring Indigenous scholarships and internships. We also recognize that we must do better at hiring Indigenous staff and we are committed to doing so.

Meanwhile, attempts to measure the size and performance of the Indigenous economy in Canada are constrained by the availability and quality of data. This represents another important barrier to economic inclusion because inadequate information impairs financial management and decision making.

For example, economic data are often unavailable at the community level and are not comparable across communities or with non-Indigenous communities.

But efforts are being made to fill these information gaps. For example, the Bank has partnered with the Canadian Council for Aboriginal Business, Global Affairs Canada and Big River Analytics to conduct a large-scale survey of Indigenous businesses in 2021. This survey should help us better understand the composition of the Indigenous business sector and market conditions faced by Indigenous firms, both on and off reserve.

A collaborative partnership has also been established between the three FNFMA institutions, Statistics Canada, the Bank of Canada and the Tulo Centre. This collaboration seeks to empower Indigenous communities with improved financial statistics to enable effective decision making. The intention is to expand the scope of this work to include Inuit and Métis communities.<sup>25</sup>

### **Our journey toward an action plan for economic reconciliation**

While progress is being made on several fronts, many obstacles continue to limit the potential of the Indigenous economy.

I'm pleased to be among friends to announce the beginning of our journey—one that will take aim at these obstacles and help define what economic reconciliation means to the Bank, to Indigenous peoples and to the broader Canadian economy.

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<sup>24</sup> Statistics Canada, "Census of Population," Statistics Canada Catalogue no.98-400-X2016263, 2016.

<sup>25</sup> The Bank is also working with Statistics Canada and the Tulo Centre of Indigenous Economics on a pilot project to develop a First Nations consumer price index. Such a price index would measure changes to the cost of living in First Nation communities more accurately, which would lead to better decisions when setting tax rates or funding levels.

We'll start by talking to the people who know us best—the organizations we've already been working with. These include NACCA, the Tulo Centre and the Bank's Indigenous Advisory Circle.

We will use these conversations with our friends not only to seek guidance about the main question of economic reconciliation, but also to invite them to suggest other Indigenous organizations and communities who may be interested in sharing their views. We hope to expand our circle of Indigenous partners.

As these conversations evolve over time, the Bank will reflect on what we are hearing. We will then work with our partners to prioritize actions and develop a formal reconciliation action plan that will help us build on what we are currently doing. It is important that we take the time necessary to craft the right plan, with an aim to publishing it sometime in 2023.

We recognize that this plan is simply the start of a longer journey toward reconciliation with Indigenous peoples. It will need to be updated over time.

Last November, many of us in this room participated in the Symposium on Indigenous Economies that I mentioned earlier. Personally, I was quite moved by the experience. A heightened spirit of cooperation permeated those sessions. This atmosphere of collegiality, derived directly from the Indigenous perspective of commitment to the common good, was critical to the success of the Symposium and it offered an important lesson for our work going forward.

Being open to learning from Indigenous experiences and incorporating Indigenous perspectives in many aspects of our work is vital. I hope that this same spirit of openness, trust and collaboration will inspire and drive our engagement over the next two years.

### **Our commitment**

As many of you may know, I will be retiring from the Bank of Canada in June, but I will not be retiring from my own personal efforts to support Indigenous economic inclusion and opportunity.

I have been inspired and impressed by your wisdom and commitment. I have found my engagement with you on these important issues deeply enriching.

I will forever be grateful for the guidance and support that you have kindly provided during my time at the Bank.

As we take this next crucial step in our journey toward reconciliation, we welcome your views on the actions we can take to contribute to the economic and financial well-being of Indigenous communities. I also invite you to hold us accountable for the commitments we are making.

By working together, I am convinced that we can, over time, make a significant and positive contribution to reconciliation and improve the welfare of Indigenous communities in this country.

Thank you for your attention today and for your warm and generous friendship. Meegwetch, merci, thank you.