SOURCES OF CAPITAL FOR NATIVE BUSINESSES: PROBLEMS AND PROSPECTS

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ABSTRACT/RESUME

The author reviews the problems encountered by Native businessmen in raising capital for their enterprises. One major problem is the difficulty posed by the inability of Bands to mortgage land and buildings on reserves. The author concludes with suggestions for increasing capital procurement for Native business.

L'auteur examine les problèmes que se posent aux hommes d'affaires autochtones qui veulent se procurer du capital pour leurs entreprises. Un problème majeur est la difficulté présentée par l'incapacité des bandes â hypothéquer la terre et les maisons dans les réserves. L'auteur conclut en donnant des suggestions qui devraient augmenter l'obtention du capital pourles entreprises autochtones.

Introduction

There are significant problems of underdevelopment (descriptions of which follow later in this paper) facing Canada's Native community.[1] One route to escape from this is entrepreneurship. This has the potential for providing the economic independence without which political independence is illusory. There has been some success. As of 1987 there were 2,400 Native controlled businesses in Canada, both on and off reserve, as well as an unknown number of businesses controlled by non-status Indians, Metis and Inuit (Department of Regions and Industrial Expansion, 1987:12.)

That same document goes on to identify the following impediments to Native economic self-reliance:

1. Difficulties in access to and control of capital;
2. Lack of required management and business skills;
3. Limited sector-specific knowledge and information;
4. The rural and often remote location of Native population centres; and
5. Legal and structural obstacles to business growth.

The same general problem set recurs in other studies on this topic (for example Nicholson, 1987.)

This paper concentrates its attention on the first of those factors: access to capital. In doing so many of the other factors also get some consideration, as they are essentially interconnected rather than independent parts of the general problem of Native underdevelopment.

Economic Development has been defined as:

> ...a comprehensive concept which refers to strategies and initiatives aimed at the creation and development of sustainable long-term sustenance, wealth and/or prosperity. Economic development is measured in broad social and economic terms which take into account not simply job creation but rather access to meaningful and rewarding pursuits which are sustainable over the longer term and which reflect and support individual and community values (Nicholson, 1987:15).

Underdevelopment is, of course, the absence of those social and economic benefits.

> In general, employment, income and educational attainment conditions are significantly worse for native people than for non-natives; this is particularly true for status Indians-especially those living on-reserve (Ibid.: iii).

Though the above quotation refers to Ontario, it can be generalized to include substantially all of Canada's Native peoples.

The general topic of Native underdevelopment is addressed in its American dimension by Anders (1980), and in its Canadian dimension by Bartel, Beigie and Wrage (1983). The latter comment:

> Indian Communities present development problems that are not dealt with effectively by classical models (*of economic development*) (Bartel, Beigie and Wrage:19).

And

> The final drawback of the classical development models is that they describe an economic situation which is fundamentally different from that faced by Canada's Indians. Development economics involves studies of the promotion of economic activity throughout whole sectors of an economy. Policies are designed to promote growth in one sector, which then generates further growth in other sectors with which it is linked by demand and supply. In Canada a developed economy already exists. The problem is to achieve a greater share of the benefits generated by that economy for Indians. The strategies selected to solve the problem could include providing education and training to allow individual Indians the same access to employment opportunities in the economy as other Canadians; promotion through loans and assistance of business ventures owned by individual Indians, to assist development of entrepreneurial skills, investment resources and job opportunities within Indian communities; or similar promotion of ventures owned directly by Indian community groups (Ibid.:22).

Specific studies of either success or failure on the part of Native businesses seem to be significantly absent from the literature. If we accept the Department of Regional and Industrial expansion problem set, however, it is likely that they not only have greater difficulty starting up, but also greater difficulty surviving. Certainly casual empiricism leads one to believe that there is a high failure rate among Native businesses.

Because of the paucity of both theoretical and empirical work in this area, methodology is a problematical issue. While attempts have been made to apply existing models (for example the risk/return tradeoff of modern financial theory), it soon becomes apparent that they are of limited practical application. This paper is essentially exploratory, and a variety of techniques have been employed to come at the problem. These include: pure theory; and case material.

Providing capital for business operations is a general problem. In Section One the conventional ideas on the topic are briefly discussed, to give a background to the specific problems which face Native Indian, Inuit,

and Metis businesses.

In Section Two I examine the characteristics of those Native businesses. These, considered functionally, are: location; type of market and product; type of business; form of ownership; structure of control; management abilities; security of investment. These characteristics are also considered from the perspective of whether they are a function of the environment (and thereby largely outside the control of the Native businessman) or alternatively whether they are decision variables (and thus largely within the control of the Native businessman). The interaction between each of these variables and the availability of capital is also discussed.

In Section Three I examine the potential sources of capital. These would include: Federal and Provincial Government sources; banks, trust companies and other financial institutions; stock exchanges and similar organized capital markets; and the informal capital markets which are capable of being accessed through personal, family and Band relationships. Those areas where the Native business enjoys unusual access (or restriction of access) or favourable terms and conditions (or unfavourable terms and conditions) are discussed.

In Section Four I attempt to synthesize this information into a strategic approach which is appropriate for the Native business wishing to raise capital. "Appropriate" in this context should be measured according to two criteria. One criterion is that the approach should have a higher probability of success than a naive approach. The other criterion is that actions and their implications should promote development in a manner which is consistent with the social and cultural values of the participants.

General Description of the Capitalization Problem

The capitalization problem can be broken down into a number of steps, each one addressed separately. These would consist of the following: firstly, how much capital is to be raised; secondly, how that capital should be divided into debt and equity portions; and thirdly, what sources and channels should be used to raise it. Although this aids understanding by breaking a complex problem down into a series of more comprehensible subsets, its linear form ignores the interactions among the three steps, and between those and other important variables. It is therefore, although useful, an imperfect description of the problem.

The quantity of capital required is a function of two variables: firstly, the cost of raising capital, and secondly, the rewards of investing in projects. It is considered to be rational behaviour for the business to raise capital from the cheapest sources at first, and as they become exhausted, to move to progressively more expensive sources of capital. The cost of capital thus becomes a stepped function of the quantity of capital. Similarly, it is considered to be rational behaviour for the business to invest

first in those projects with a very high return, and as these opportunities become exhausted, to invest in progressively less worthwhile projects. The benefit of investing thus becomes an inverse function of the quantity of capital invested. Eventually the marginal benefit of investing in a project will match or exceed the marginal cost of raising the capital to finance it, and the business will decline both the investment and its financing (Figure 1).

The approach above ignores any differences between sources of capital or applications of capital, beyond the expected return. If there is, for example, a different level of risk associated with one source (or use) and the others, then that could invalidate this simple analysis, and call for explicit consideration of such additional variables as are considered relevant.

The theory of finance posits a world in which such decisions are taken on a two parameter basis: the decision maker attempts to maximize return for a given level of risk, and/or minimize risk for a given level of return. This is illustrated in Figure 2 for an investment situation, and the same argument could be applied to raising capital.

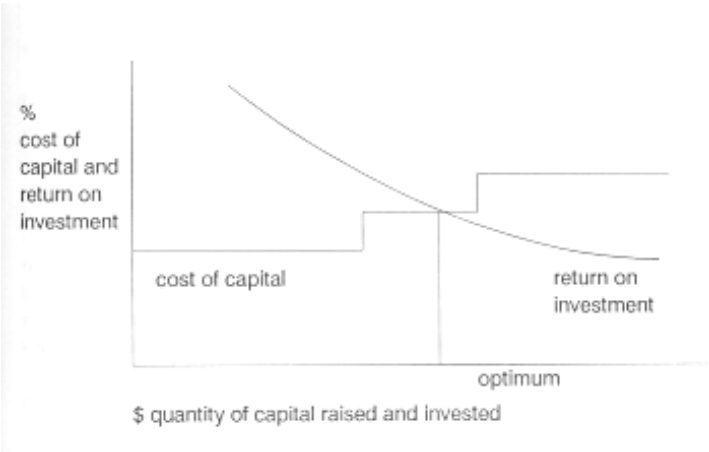

Figure 1

Risk/return combinations of four possible investments

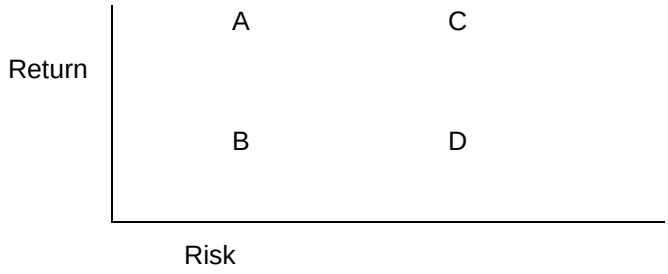

Figure 2

With reference to the points A,B,C,D in Figure 2, the rational decision maker would prefer A to B, or C to D (higher return for a given level of risk), and would prefer A to C or B to D (lower risk for the same level of return). The rational decision maker would be in a quandary when faced with a choice between B and C. He would have to ask himself whether the additional risk of C compared to B, is adequately rewarded by the additional return of C compared to B. No objective answer can be offered to this phase of the problem, as it is a function of the investor's risk/ return utility function, and that may vary from one investor to another.

For convenience of calculation, risk is generally approximated by the degree of variability of the return on the investment.

The second major decision area is the extent to which the capital should be raised as debt or as equity. If there is any difference in cost between these two, then this decision will have an effect on the cost of capital, and impinge on the quantity decision already referred to above.

The essential feature of this decision is that it may affect not only the cost of capital, but also the level of risk. In an all equity financed venture the return on investing in projects is exactly paralleled by the return to the shareholders. In a venture financed partly by debt, the interest payment to the creditors becomes a fixed charge on the income, and the return for those creditors has negligible variability, which we would describe as low risk. For the equity holders, however, the same absolute variability is being experienced on a smaller investment, and thus the degree of relative variability is much higher, which we would describe as high risk.

This leverage effect is illustrated in Figure 3. A business has expected earnings of $100, on an investment base of $1,000, giving a 10% return on investment. Earnings may fluctuate about that value by + $20 or - $60, resulting in the return on investment fluctuating between 4% and 12%.

If the company had set itself up on the basis of borrowing $500 at 8%, and financing the rest through equity, the return on investment for the equity would be both higher on average (12%), and more dispersed, as it now fluctuates between 0% and 16%.

Note that the increase in the expected return on investment for the equity holders has been achieved by offering a lower risk return to the creditors, who are thus content to accept a guaranteed 8%, rather than the

	worst case	most likely	best case
All equity financing:			
Investment	$1000	$1000	$1000
Earnings	40	100	120
Return on investment	4%	10%	12%
Financing by equal proportions of equity and 8% debt			
Investment:equity	$ 500	$ 500	$ 500
debt	500	500	500
	$1000	$1000	$1000
Earnings (before interest)	$ 40	$ 100	$ 120
less interest ($500 x 8%)	40	40	40
Earnings for equity	$ 0	$ 60	$ 80
Return on equity investment	0%	12%	16%

Figure 3: The Leverage Effect

10% inherent in the project itself.

Modigliani and Miller (1958) argue that, under a rather restrictive set of assumptions about perfect markets, this transfer of return on investment from debt financiers to equity financiers, as a reward for the transfer of risk from debt financiers to equity financiers, is the inevitable, and only, result of the swap from equity to debt financing.

The most telling practical argument against the usefulness of the Modigliani and Miller approach is that, under most legislations, interest is a tax deductible expense, thus violating the perfect market assumptions. The existence of this tax break for debt financing is sufficient to make debt more attractive than equity financing, at least up to some reasonable level of the debt/equity ratio. There is, therefore, a positive benefit for businesses choosing to finance partly through debt. As we shall point out later, Native businesses do not suffer taxes on income; this tax break thus

becomes irrelevant, and there is little advantage for them in debt financing.

Moving to the third stage of the problem, channels of investment, we find the following: individuals and firms may have surpluses which are available for investment. If these potential investors are to be linked to the potential users of capital, then it becomes necessary to think about the channels through which that can occur.

If both investor and investee have perfect information, and can communicate effectively, then there is no need for any intermediation. To the extent that there may be information deficiencies, some institutional involvement will probably improve the efficiency of the process.

The stock market is an example of an institution which brings together investor and investee (in terms of primary issues) with different quantity specifications. (Many small investors make a meaningfully large total for the issuing firm to raise. It also provides a secondary market which encourages the primary investor by promising a degree of future liquidity.

Banks aggregate the small savings balances of the many, and lend on to the investors predominantly in larger amounts, and at longer terms.

To the extent that any economy is a closed system, any capital used to finance a business should be identifiable as coming from a distinct source. The most immediate source of capital is that which is currently available to the firm, its present wealth and any additional capital its present owners may wish to add to their existing investment. As time goes by, if the firm is successful it will have profits, and these may then be ploughed back into the firm. Both these sources of capital are internal, and in both cases the firm has a high level of unfettered control over their use. Profits not ploughed back become paid out to owners as dividends.

Once the internal sources are exhausted, the firm which still needs additional capital has to persuade outsiders to supply capital to it, on terms which are mutually acceptable. External sources of funds can in turn be divided into two main groups.

Firstly, the government may have capital available which is accessible to the firm. This could have arisen through an excess of taxation over expenditure, or because the government has, in turn, borrowed from some other source (individuals or firms in the economy). Secondly, private individuals or companies may have available investable surpluses.

In summary of this process we can say that the capitalization of Native businesses will consist of the channeling of equity and debt funds, from internal and external sources, into productive investments. These funds will be channelled through a variety of financial intermediaries such as banks, stock exchanges and Government agencies. The degree to which a Native business can, or will, become involved in this process, will depend upon the degree to which it is perceived by investors as being adequately risk free (e.g. the mortgagability and alienability of land) and the degree to which it can identify and implement successful productive

investments. The fact that the Government may be involved in the financing process introduces the possibility that some decisions will be taken not solely on strict micro-economic criteria of viability, but also on wider social cost-benefit, or even purely political criteria.

Native Business

Characteristics of Native Business

Before attempting to describe some of the characteristics of Native businesses it is necessary to define the boundaries of that description. This in turn requires a definition of who is a Native Indian, Inuit or Metis and who is not. Is one to follow the legal strictures and consider only the status Indian, for example or should non-status Indians also be included? What of the Indian who has left his Band and become assimilated into Canadian society?

In general we are attempting here to deal with a problem of economic underdevelopment (within the highly developed Canadian economy). Economic development has been defined in Nicholson (1987) above. Our definition of a Native business should reflect this concern with an underdeveloped sector of the economy. The Indian, Inuit or Metis who considers himself or herself to be an Indian, Inuit or Metis and who shares their underdevelopment is a logical candidate for inclusion in the definition, whatever the legal status. Conversely someone who has consciously turned away from the tradition society and become "assimilated", has chosen a different path, and become part of a different way of life. They would generally fall outside the definition. They may, however, be very useful to the analysis of the more general problem. They may act as role models (good or bad); they may perform useful advocacy functions; they may be a bridge between the two cultures.

Following from the above, a Native business would be one owned by or run by an Indian (status or non-status) or Inuit or Metis. It should be noted that some of the cases of thorough assimilation are associated with the successful operation of businesses. It is not clear whether the assimilation laid the foundation for successful business operation, or whether running a successful business operation caused assimilation. In any event these models can usefully be studied in terms of what is possible and whether the individual is prepared to pay the social and cultural price of economic success.

As with any general study there is the danger that generalization which attempt to cover many disparate situations result in being misleading in respect of individual situations. We treat Native peoples as if they were homogenous, because they share problems of underdevelopment, yet there are great differences between the cultures and achievements of different Native groups. These would, in turn, affect

the applicability of the arguments put forward, and the readiness of those Natives to exploit, or be exploited by, entrepreneurship. Generalizations are, however, probably sufficient for the generation of an overview of those Native peoples who share similar problems.

Geographical Location

The process whereby the European immigrants displaced the Natives in Canada was obviously one geared to giving the Natives the least desirable land. Indeed in many instances the reserve land originally promised never ever became allocated. Two things mitigate this disadvantageous situation. Firstly, the criteria used for selecting reserve land many years ago failed to recognize the pattern of resource use indicated for the 1980's. Thus many reserves in Alberta sit on comfortably large deposits of oil and gas. If the current economic implications of that fact had been understood when the land was allocated, it is most unlikely that the distribution pattern would have turned out the way it has. Secondly there is some evidence of a current willingness on the part of Canadian Governments (of whatever political calling) to negotiate and settle Native land claims. This, hopefully, means that full compensation will be awarded for the major discrepancies between obligations and actions which have occurred in the past. Unfortunately the evidence is mixed, in that although some claims have been settled, others remain on the negotiating table, and even the ones which have been settled in a formal sense, have not always resulted in the Government coming across with the funds agreed upon.

This leaves the majority of our target population living on reserves. The tendency is for these to be poorer quality land, some farmed, mostly in its natural state, and remote from the urban centres and lines of communication which now exist in Canada. Nearly 60% of the Canadian population lives in Southern Quebec and Southern Ontario. Almost all the Indian reserve population lives elsewhere.

There are a total of 576 Bands, on 2,251 reserves, having a combined area of 2.6 million hectares (Statscan, *Canada Yearbook*, 1985:42). For historical reasons about 60% of the reserves are in the Province of British Columbia. The total Native population (status and non-status Indian and Inuit) is probably little over one million.

From a communication perspective the location of reserves, and hence of the majority of Natives, is both a plus and a minus. The minus is that geographical remoteness cuts these areas off from some of the larger (and richer) markets, or gives a business a captive market (though a small one) for which there is a competitive advantage in transport costs, compared to a business located in a conventional industrial centre a long way from the reserve. In general this minus is far larger than the plus, implying a net disadvantage to the Native business.

Additionally the reserve may enjoy lower factor costs because of its location. Rent of land or buildings will surely be lower than city prices. Availability of labour should be high (a function of the high unemployment and under employment on reserves). Availability of labour with appropriate aptitude, training and attitude, may, on the other hand be problematical. The greater availability would drive labour costs down, the lack of appropriate labour would drive labour costs up. Raw materials could be cheaper (if produced locally) or more expensive (if produced elsewhere, and transported in). Distribution costs could be lower (for local supply) or higher (for supply to less accessible markets). An inability to take advantage of economies of scale would tend to increase most factor costs.

There are strong forces binding the Native people to their land. This suggests that a Native business would be set up on that land, if anywhere. The alternative is that the Native business would consider opening up elsewhere, say for example, in downtown Vancouver. There are so many social, cultural, fiscal and organizational disadvantages that such a course of action is seldom justified, but it should perhaps be considered from a strategic planning point of view as one of the possibilities.

One area where the Native business should enjoy a definite advantage over a non-Native business is in taxation of income. Indians, in respect of their earnings arising on the reserves, are specifically exempted from Federal and Provincial taxes. While this may seem very straightforward, it has its pitfalls. A corporation, for example, is not an Indian within the meaning of the *Indian Act*, even if owned by Indians. It thus becomes necessary to ensure that all profits are paid out as salaries, fees etc, to ensure that they remain tax free.

Earnings received for work done outside the reserve are in grave danger of being assessed tax. The Minister of National Revenue pursues such cases as far as is possible, to draw them into the tax net. In order to keep earnings out of the taxable category, it is almost certain that both the work and the payment be situated on the reserve (see Ontario Indian, 1979, for a detailed list of cases).

Type of Market and Product

If the Native business is geographically fixed in terms of its reserve or traditional land, then the markets it can serve will be strongly influenced by that decision. At the extremes, two choices are available.

A local market orientation would attempt to satisfy the needs of the local market: the Band and those non-Band people living in the same immediate area. Because of the size and the inherent low economic development of this target market it is only capable of supporting fairly limited business activities. The range of needs of the market is small, and the dollar volume is small, by comparison with the wide range of needs and large dollar volume of the more sophisticated markets. The business which

sets up to cater only to such a market may be getting itself into a small business syndrome, from which escape becomes impossible. That may be acceptable to the entrepreneur involved. On the other hand, once the first step into entrepreneurship is taken, ambition may find such a restricted situation unacceptable. If the small scale operation is acceptable, it argues a need for small scale capitalization. This is, in general, far easier to implement and operate than large scale capitalization.

The probability is that a well planned and well run Native business based upon these precepts (smallness and local orientation) would have a very good chance of being moderately successful. This would be due to its greater ability to perceive the needs of the local market, combined with operating expense which was at least as low as that of competitors, and likely lower.

A local product orientation would build upon the raw materials, unique labour skills, or other factor inputs which were readily available. In many instances this would result in a product highly acceptable to the local market. As long as that market was not already self supplying (as in a subsistence agricultural economy), then the cost advantage over a more remote supplier should be sufficient to augur success. Again, though, the size of the local market would be a limiting factor. To overcome the hurdle the business may have to consider widening the target market beyond the local scope.

An external market orientation sees its mission as more far reaching than a local one. Generally starting off with a particular product or technology orientation, markets are sought as widely as possible, wherein those products and technologies can satisfy a need. For the Native business, this brings it into direct competition with the conventional economy. This is a rough environment, and not one where success is as easy to achieve as with a smaller scale approach. On the bright side, though, the rewards of success are greater.

From a capitalization perspective the needs of a business which is trying to cater for a wider market are comparatively large. This becomes a problem, both as to its raising in the first instance, and as to its subsequent management.

The converse of the local product orientation is an attitude which looks for ways in which new and complementary products can be added to the original product set, this in turn widening the market appeal of what is offered. The new products or technologies will almost certainly imply heavy capitalization, and this could be just as problematical as market driven needs for capital.

The relationship between the market and product, and the scope for expansion is often illustrated with the "marketing matrix" (Kotler & McDougall, 1983:82). In Figure 4, the top left hand corner represents the here and now. For example the entrepreneur may be a fisherman, who sells his fish to other people in the village. As he moves away from the top

left hand corner he becomes involved in different aspects of market and product development.

In terms of market development he can gradually expand from his current market by the following sequential steps. In each case the step would be achieved through some combination of pricing, promotion, placement or product design.

1. Market Penetration. Here he gets his existing customers to eat more fish.
2. Market Expansion. Without going outside the village he gets non fish eaters to become fish eaters.
3. New (Related) Markets. Here the fish are sold to Band members in nearby, and further afield villages.
4. New (Unrelated) Markets. Here the fish are sold to non-Band members, first in local townships, then to townships and cities which are more distant, eventually perhaps to overseas markets.

As the mission moves successively through these stages, the entrepreneurs' knowledge of the market becomes less, and so his probability of being able to successfully meet its needs, becomes less likely.

Additionally, as the remoter markets are tapped, the product may need modification. Fresh fish is a good example of this because of its very limited life. Also, having accessed these new markets the fisherman may want to reap further benefits by selling other products to them.

In terms of product development the village fisherman can gradually expand from his current market by the following sequential steps. As with the market development strategy, the product changes will be implemented through careful pricing, promotion and placement decisions.

1. New Products with Similar Technology. Because the fisherman is good at catching one type of fish, he may specialize in that. Applying the same skills to the catching of other types of fish widens his product range, and potentially, his markets, yet trades on his skill as a fisherman.
2. New Product with Different (but Related) Technology. Using his knowledge of fish and their environment, the fisherman, can go for a new product which also needs those same skills. The vertical integration approach moves either backward toward the sources of supply, or forward toward the end uses of the product. The fisherman who sets up as a fish farmer should be more in control of his sources of supply, for example. The product diversification approach seeks out different products which use the same skills or technology. The fisherman could go fur trapping or game hunting, which have similar skills as fishing, or he could set up as a fishing guide for tourists.

		PRODUCT DEVELOPMENT					
		Current Product and Market	New Product: Similar Technology	New product: Different (related) Technology		New Product: Different (unrelated) Technology	
		VILLAGE FISHERMAN		Vertical Integration	Product Diversification	Vertical Integration	Product Diversification
MARKET DEVELOPMENT	Market Penetration	Existing customers eat more fish	New varieties of fish	Fish farm	Fur trapping Game hunting Tourism	Canned or frozen fish	Trading in: Vegetables; Household Appliances
	Market Expansion	Sell to new customers within the village					
	New (Related) Markets	Export to other Band villages					
	New (Unrelated) Markets	Export to: Non-Band townships; Distant Cities; Foreign Countries.				New Products in new markets	

FIGURE 4: The Marketing Matrix

3. New Products with Different (Unrelated) Technology. Vertical integration may call for the provision of services which use different skills and technology. If the fish are to be sole in remote markets, they will need to be canned, dried or frozen, and this requires the fisherman to become expert in canning, drying or freezing. If the desire is to integrate forward, then the fisherman might open a fish restaurant. Again new skills and technologies are required. Product diversification in this area might call for selling vegetables (to eat with fish) or household appliances (pots for the customer to cook his fish in) or, at the extreme, anything else the customer might need.

As with the market penetration axis, product development contains the seeds of disaster. The further one moves away from the existing well known and well understood products, the more one gets into areas of ignorance, where costly mistakes can be made.

The bottom right hand corner of the marketing matrix is a case of selling new products in new markets, neither the product nor the market being well understood. An example would be that of trying to sell nuclear reactors to the Japanese, or trying to sell video recorders to the Italian market. The likelihood of success in this extreme corner is very low.

The choices facing an entrepreneur, and the implications for capitalization would, on the basis of the above description be four fold.

1. Stay with the here and now. Stick to one (or very few) well known products, which are marketed within a well known market:

Return:	Low
Risk:	Low
Capitalization:	Low

2. Go for market development, gradually taking the well known products to even larger and more remote markets:

Return:	Higher
Risk:	Rising} the more remote the market, and
Capitalization:	Rising} the greater the scale of operations.

3. Go for product development, gradually supplying more and different products to the well known market:

Return:	Higher
Risk:	Rising} depending on product,
Capitalization:	Rising} technology and scale

4. Go for new products in new markets:

Return:	Potentially very high
Risk:	Very high
Capitalization:	Very high

An analysis such as this looks quite neat, and has a number of sensible things to say to an entrepreneur with an existing product and market, who wishes to expand his horizon. This will be a good description of many situations. There are, however, many instances where this is not the starting point. The gradual process of building on existing expertise is not as relevant where completely new ventures are to be started.

Some of the projects into which Native businesses have gone in recent years have been in the nature of quantum leaps: oil extraction, pipelines, trucking, fishing fleets, property development and insurance. In part this has been a response to newly available capital (which we discuss further below). In general it puts these businesses somewhere into the middle of the marketing matrix, where relatively unknown products are being sold in relatively unknown markets. If successful, they are likely to be highly profitable. There is, however, a high level of risk involved.

Any business would have difficulty in dealing with so much novelty all at once. A particular problem for the Native business is that this forces a new situation to exist, one which will probably be viewed as out of keeping with Native expectations and ways of operating.

The Native tribes have a long and complex history, and current attitudes are much more a function of that history than is the case with European and other immigrants to the North American continent. Stanley (1978) cites the case of the Lummi tribe from the Washington Coast. Well meaning outsiders tried to make them into farmers, cottage industry craftsmen etc., but the tribe rejected these roles. Traditionally they had been fishermen. However, when an aquaculture project was proposed they immediately grasped its consonance with what they had always done in the past, and they espoused it eagerly and successfully.

In a like manner, radical product development is always questionable in terms of Native history and the integrity of the way of life. Cardinal (1977) makes this quite clear:

> Rather than looking at economic development from the capitalistic view of making the most dollars possible, or from the socialist view of insuring better distribution of capital, we must examine our development processes to make certain that they are designed not only to help us out of our poverty, but to reinforce our identity as Indian people (Cardinal, 1977:46).

The above is in the nature of a political statement, and one which, perhaps, many Natives would reject in favour of personal economic advantage.

Form of Business and Ownership

The entrepreneur has been perceived as central to the problem of economic development, though the current view of the entrepreneur's role is that he has less importance than was once thought. Leff (1979) discusses this role in detail, where he describes the entrepreneurial function thus:

> Entrepreneurship clearly refers to the capacity for innovation, investment, and activist expansion in new markets, products and techniques. As such, entrepreneurship may reflect superior information and, perhaps more importantly, imagination, which subjectively reduces the risks and uncertainties of new opportunities, which are ignored or rejected by other investors...Alternatively, the entrepreneur has special aptitudes for bearing risk and uncertainty, which permit him to act as the promoter and catalytic agent who seizes new investment and production opportunities...These traits, in effect, shift the opportunity set, and increase the probability that a new project will in fact be implemented...Viewed in these terms, entrepreneurship is so important for economic development that it has sometimes been conceptualized as a "fourth factor of production" (Leff, 1979:47).

Two important points emerge, one relating to personality, the other to forms of ownership. Both have implications for the capitalization of Native business.

Firstly, the entrepreneur is seen as a risk taker, at least by comparison with the non-entrepreneur. If that is a personality trait which fits the Native businessman, then it bodes well for his becoming an entrepreneur, though it does not guarantee it, a necessary, though not a sufficient, condition having been met. I am not aware of any exhaustive empirical work in this area, however, the general impression seems to be that this is the direct opposite of the Native personality.

Received opinion on the Native personality stresses the need to address socio-cultural objectives, rather than personal gain objectives; the importance of communal decision making processes, rather than individualistic ones; the reluctance to risk new and unknown ideas, at the expense of valued tradition. This is not the stuff of which entrepreneurs are made. A study done for the Economic Development Administration in the U.S. in 1972 by the Boise Cascade Center for Community Development, identified this quite clearly. Stanley (1979) summarizes their findings as follows:

> ...traditional entrepreneurial or managerial values seem lacking in Indian traditions. They have no entrepreneurial or

> managerial class, and they are not habituated to contemporary money-making patterns. Furthermore "...the creation of economic values and self sustaining entities does not come easily to Indians." None of these allegations are new or surprising. They have been made by everyone who has taken time to observe the contrast between Indian and non-Indian Values (Stanley, 1978:589).

Secondly, the entrepreneurial approach implies the setting up of an entrepreneurial structure to achieve its goals. The archetypical such structure is the firm, initially perhaps with an owner manager, later perhaps with shareholders who own, and using professional managers, who manage. The firm is, amongst other things, a way of legitimizing certain behaviour and interrelationships, through the use of rules and authority, with an (economic) objective.

For similar socio-cultural reasons as make the Indian an unlikely entrepreneur, the firm is an unlikely vehicle for Indian activities. It is antithetical to Indian values in respect of both ownership and control.

The Indian perception of ownership is to hold in trust, subject to a right to use. This contrasts sharply with the European concept of ownership, which is more concerned with alienation and exploitation of assets as against other users. This makes difficult the task of identifying the boundaries of the firm for the Native businessman, and causes discomfort when assets, particularly natural assets, are used in an entrepreneurial way, using the American economic model.

> We speak proudly about our love of the land our responsibility to serve as its protector, yet the internationals can see the overwhelming bulk of our revenues comes from oil and timber exploitation. As we talk of opposing the pipeline, some of our people are directly involved in the formation of oil exploration and pipeline construction companies (Ontario Indian, 1982).

Structure of Control and Management Abilities

The issue of control within the firm is also a critical success factor. Again we come up against a difference between the way the firm has normally been operated, and the way in which decision making is carried out by Natives.

Weber (1946) investigated the social organizations of Europe and concluded that there were three key elements to the maintenance of bureaucratic authority, fixed official duties; rules about coercion and authority, and methodical provision for the fulfillment of duties and the exercise of rights. Although the study of organizations, authority and motivation has made significant steps since that time, most firms remain basically bureaucratic, with internal rules which legitimate authority within

the context of carefully specified job descriptions. Externally, roles such as shareholder, manager, consumer etc, are also clearly defined.

These organizations were successful, at least in part, because those organizational values fit in well with the values of the society in which they existed. The modern North American corporation shares those structures, and modern North American society shares those values. There is thus substantial congruency and there are relatively few indications of strain.

Dacks (1983) contrasts these corporate values and attributes with the corresponding set of Native values. He notes: the consensus approach to decision making; sharing and equality rather than competitiveness; self-determination rather than imposed rules or norms; and self reliance rather than centralized decision making.

These differences would militate against the successful operation of a corporation by Native peoples adhering to their traditional values. Two possible routes out of this dilemma suggest themselves.

On the one hand a rejection of traditional Native values would eliminate the source of conflict. The process (of assimilation) is one of the most problematical areas for Natives who wish to maintain their ethnological integrity.

The alternative is to reorganize the corporation, and the roles of Natives within the corporation, in such a way that Native values and processes are affirmed by the corporate context, rather than denied by it:

> In other words, native groups in northern Canada reject a final solution of assimilation in order to obtain the benefits of participation in the North American economy. Instead they wish to pursue an acculturation model by undertaking the admittedly difficult task of relating traditional values to the context of contemporary economic activity or at least to those enterprises which offer a reasonable promise of accommodating traditional values (Dacks, 1983:291).

This is no easy task. Dacks goes on to suggest that questions of membership, division and specialization of labour, management, remuneration and discipline, all need to be addressed. While agreeing with such a list, the problem of management would seem to be crucial, and in many instances could be said to subsume these other aspects.

There is an inherent conflict between the hierarchically structured and directive (if not coercive) role of corporate management, and the inherent self-determination of Native tradition. Much work has been done on the general theme of industrial democracy within the modern corporation, but that falls far short of congruence with Native values. Lessons on worker participation, co-operatives and so on can be learned from world wide experience, e.g. the Ujama village movement in Tanzania and the small work group technology approach in Scandinavian

automobile factories. However, no universal role model emerges as universally feasible in general terms or specifically relevant to the needs of Native business operations.

Thus, although Native business might be required to conform to Native values, in order to be acceptable mechanisms for Native actors, no practical description or example of how this can be done is yet available, nor is there any sign of such a structure becoming available in the near future.

Even if this were to be achieved, it could have disruptive effects on the availability of capital. Whatever the nature of this "appropriate form of Native corporation" (joint venture, co-operative, democratic, etc) it would be seen as different from the conventional forms of organization. The advancers of credit would, in all probability, reject the application on the grounds of its novel form, through fear of the unknown.

Security of Investment

Any lender is concerned that his investment is reasonably secure. This security is contingent upon a wide range of factors covering the business, its environment, and the people operating it.

If the lender believes that the business had a good chance of success, he will look to the operating surplus for payment of periodic interest, and repayment of the capital advanced. The relative newness of Native business, and the lack of experience which their managers have, militate against the lenders having a high expectation of success.

Where the lender is unsure of the business's prospects, he is likely to look for some type of security which is proof against business failure. This would involve the raising of enforceable legal charges on specific assets. These would most often be business assets, but could also include non- business assets owned by those people who owned the businesses, and which were not already pledged. The existence of such non-business pledgable assets is very scarce in the Native business situation.

The assets of the business itself will often be bought with monies lent for that specific purpose. The tying of the loan to the existence of the assets is thereby easily facilitated. From this process we might see emerging a rental purchase agreement for a truck, a bank loan secured against a piece of machinery, or a revolving loan secured against the inventory of a business.

In non-Native situations the mortgaging of land is a very fruitful source of finance. In the case of Native reserves, however, the land is considered to be Band land, and therefore not alienable. Hypothecation is, therefore, an empty gesture as a mortgage would be unenforceable. It further renders virtually impossible the mortgage financing of buildings and other developments to land, as they assume the same inalienability when attached to the land itself. Thus land, the richest asset the Native business

might have, is spectacularly useless when it comes to assisting in either the finance of its development, or in the finance of the other parts of a business.

Various solutions have been proposed, including the potential alienation of land from reserve status, but for the time being this situation is an impasse for financing Native businesses.

As far as other asset backed financing goes, it tends to encourage expenditures on what can be seized and sold, mainly capital equipment, rather than on working capital, or human capital development. Experience in the lesser developed countries of Africa and Asia suggests that this is a suboptimal approach to getting the most development out of the available dollars.

The third aspect of security is that without perceiving competent management, no lender will feel comfortable with having money loaned out to any business. Lack of experience and training in business skills will make the perception of the Native business persons unattractive to the lender.

Sources of Capital

Government Sources of Capital for Native Businesses

The Government of Canada takes the problems of Natives seriously. This is evidenced by the very large amounts of money it spends every year in this area. In 1983/84, for example, over $2,000,000,000 was expended within the budget of the Department of Indian Affairs and Northern Development (DIAND). The 1983/84 DIAND report also goes to great lengths to describe the land claim settlements that had been negotiated, and which were in process of negotiation at that time. They also support education, housing and Band government, as well as promoting economic development of resource based industries, in conjunction with major resource companies.

Of perhaps greater significance than such general programmes for the Native business is an initiative such as the Native Economic Development Fund (NEDF). This $345 million fund was proposed by the Liberal Government in 1981, but did not get under way until 1984. The change of Federal Government has not caused it to disappear, and its continuance was assured by Small Business Minister, Andre Bissonnette, in early 1985 (*Globe & Mail*, February 2, 1985, page 4).

Opinions vary about this fund. While it has had many applications made to it, very few seem to have survived the screening process, and very little has actually been paid out of the fund to Native entrepreneurs. By July 1986, for example, 1,031 applications had led to the approval of grants totalling $63.8 million, and actual payment of grants totalling $18.4 million (Native Economic Development Fund, communication, 1986).

One project which was assisted by cash from the NEDF was the Native Business Summit, held in Toronto in June 1986. To a considerable fanfare this trade fair gave wide publicity to the opportunities for doing business with Native peoples, and widely publicized some of the more successful ventures.

The NEDF is administered by the Department of Regional Industrial Expansion (DRIE), and is physically located in Winnipeg, though the source of the funds is Federal. Given the four year life of the Fund, and its history to date, it seems unlikely that it will run out of cash before its terms expires. The way it offers financing is interesting. It does not take equity positions in businesses. It makes loans, largely of a non-interest bearing type. Providing the business conforms to laid down criteria of operation and reporting, these loans are gradually forgiven, and thus become grants. Other Federal initiatives, described below, concentrate more on the loan granting process.

The same agency (DRIE) is also responsible for administering a range of investment incentives of a more general nature. Woodward (1974) points out that these have a tendency to promote capital intensive, rather than personal intensive investment. As the NEDF is using similar standards to judge the acceptability of projects, we suspect that even those few businesses which the NEDF has supported would be unnecessarily capital intensive. The problem is one familiar to anyone who has dealt with funding institutions. Physical assets are considered better security than people or promises.

Federal funds also back the Federal Business Development Bank (FBDB) which offers loans, loan guarantees and financial planning services, investment banking facilities and management services such as counselling, training and information. These are offered to promote businesses, particularly small and medium sized ones, at start up or later stages of development.

The advisory and training aspects of FBDB are excellent value for money, and offer a service lacking elsewhere. The loans etc. are (a) tied to physical assets, and (b) negotiated at commercial rates of interest. The only advantage they offer over a conventional commercial loan, is that the repayment terms might be less tough.

Yet another Federal initiative is guarantees. Business Improvement Loans are offered under the auspices of the Small Businesses Loan Act. This scheme is directed to small businesses (gross revenue p.a. << $2 million) and works by guaranteeing loans advanced by banks, trust companies and similar financial institutions. Because these are basically commercial deals, they are charged at normal commercial interest rates. As with the FBDB, they are restricted to funding physical assets of a long term nature (working capital and refinancing of existing debt are specifically excluded). They are further restricted to exclude certain types of business, notably finance, insurance, real estate, professions, mining,

petroleum or gas production, charities and religions.

The Small Business Loans Act stipulates that loans made under the programme carry an interest rate not exceeding prime plus one percent. As such, where the rate would otherwise have been higher, there would be an interest subsidy present. Hatch, Wynant and Grant (1985) conclude that most Business Improvement Loans carry such a subsidy, as well as extended repayment terms.

A similar scheme specifically for Native businesses, the Indian Economic Development Guarantee Order, which came into effect in 1979, will guarantee a bank loan (on regular commercial terms) for a Native businessman. A sliding scale of approvals requires that loans up to $100,000 are to be approved by the Minister of Indian Affairs, $100,000 to $500,000 by the Treasury Board.

These guarantees are available not only to Native business persons, but also to non-Native businesses whose activities contribute to the economic development of Natives.

In addition to the above, there are similar schemes under the auspices of the Agricultural and Rural Development Act, the Northern Development Agreements, The Industrial and Regional Development Program, the defence Industry Productivity Program and the Program for Export Market Development, all at the Federal level, and all with the potential to provide funding of some sort for the Native business (Department of Regional and Industrial Expansion, 1987.)

The general thrust of all these Federal programmes is that they might facilitate the granting of a loan which would otherwise have been refused by the lending institution, but they often do not affect the terms of the loan, nor its need for security.

In none of these programmes do we see any willingness for Federal funds to be advanced for equity participation. As long as the Native business is indifferent to an advance being debt or equity this will not matter. As we go on to discuss below, however, this should be of very great concern to the Native business, and the Federal programme is deficient in that equity financing is not available through it.

A more subtle criticism of this situation is the inference, in giving grants, that the money is being thrown away. The approval process may check the application to ensure that the investment looks sound (i.e. developmental), but the failure to follow up and monitor the subsequent management is indicative of carelessness as to the eventual effectiveness of the investment.

At a Provincial level the same story is repeated. There are institutions which purport to help small (including Native) businesses, although sometimes they only offer loans at commercial rates of interest, and on commercial security terms. More generous schemes (such as the Ontario Small Business Equity Corporation) offer both cash grants and tax credit incentives, and are widely used, though not as widely used by Native

businesses as by non-Native businesses. One of the few Ontario schemes to take an equity position is "Innovation Ontario", but this is restricted to new products, of a high technology nature, and thus is unlikely to be of any relevance to the majority of Native businesses.

Private Sector Sources of Capital for Native Businesses

Potential lenders to Native businesses include all the major financial institutions: banks, trust companies; insurance companies, pension funds and so on. All of these have a fiduciary responsibility to their owners/ investors. As such they will only be prepared to lend if the security is adequate (for which see the section on Security Investment above) and if the return represents an acceptable commercial reward for the risk involved.

Given the lower levels of security implicit in Native businesses, this would tend to give loans to Native businesses a lower priority than loans to better established, larger, better managed organizations, in the non-Native sector, though this could be offset by the Federal or Provincial guarantees available, mentioned above.

In order to discover whether the principal financial institutions had any preferential treatment system for Native businesses, the five major Canadian banks were requested to provide details of any such schemes. Neither of the two banks which replied indicated that they had any special policy towards Native business: loan applications from any source would be considered on an equal footing. It is probable that most financial institutions likewise have a policy of not distinguishing between Native and non-Native businesses in terms of loan applications. Apart from the Federal and Provincial bank loan guarantee schemes, this puts the Native business in a very disadvantageous position compared to other credit applicants.

As an alternative to raising capital by way of loan, the Native business might try to raise equity capital. Here we find two very extreme positions in practice, and no middle ground to speak of.

The received opinion of the Native business at the startup stage is that it totally lacks adequate capital to be invested by entrepreneurs. This, in turn is a function of the way the Native peoples have been disadvantaged and discriminated against in the past. They had no inherited monetary wealth, and they were not part of the well paid wage economy, so they had no opportunity to accumulate enough wealth to start a business.

This is probably a very fair picture of many Natives who would like to go into business, but cannot. It is, in fact, a double edged weapon. Not only does it not facilitate the Native going into business, it also prevents a lending institution from advancing loan capital. A major function in banks refusing loans to small businesses (including Native businesses) is that

the equity base is not sufficiently large to sustain the loan requested.

Where the individuals, the family and the Band share this lack of monetary capital, it will be of no use to involve them in the capitalization process. They would merely add numbers, without adding any significant capital.

The one item of real capital which the Native businessman might have available is land. The reserve lands are held by Bands, but they only have its use, not the right to dispose of it:

> Reserve: "A tract of land, the legal title to which is vested in Her Majesty, that has been set apart by Her Majesty for the use and benefit of a Band" (The Indian Act).

Commenting on this, Lowry points out:

> This is a key definition as it clearly establishes the ownership of the land and the rights accruing to the Band. These rights are something less than freehold and may perhaps best be described as usufructuary. The Band enjoys full use, occupation and benefit of the lands but can transfer its rights only to a Band Member, or to Her Majesty (Lowry, 1981:28).

This inalienability of reserve land is another main factor in the inability of Native businessmen to raise loan capital. It is no use as collateral unless it can be forfeited to the lender in the event of default on the loan. This is a gloomy picture of under capitalization, and betokens an inability to emerge into the entrepreneurial world. It is, however, only one side of the story.

Some of the recent land settlement agreements, and the changing pattern of use of reserve lands, have led to some situations which are dramatically different from the norm.

Firstly, the very large oil and gas deposits which lie under Alberta reserve lands, have given rise to a situation where massive royalty payments accrue to the Bands occupying those lands. To the extent that these, and other, natural resources are on Band land in Alberta and elsewhere, and providing those resources are exploited, the Bands will benefit from a continuing flow of royalty income.

Secondly, there are several cases where the lands originally promised to the Native bands were never fully allocated to them, or the terms of the treaty were not fulfilled. The Canadian Government is in the process of settling these claims, which generally results in some massive payment into trust funds set up to benefit the Band members.

As a result of these two rather special situations there are isolated pockets of extremely wealthy Native Bands. Examples would include: the Samson band from Hobbema, South of Edmonton, and the Ermineskin and Louis Bull Bands from the same reserve. These bands shared about $300 million of the total of about $800 million which was paid to Indian Bands as oil royalties in 1983/84.

The Inuvialuit, Western Arctic, agreement is an example of the second type. In recognition of the non-fulfillment of the original treaty, the government has settled on a range of benefits and rights including:

> land, cash compensation, wildlife harvesting and management, economic measures and Inuvialuit participation on advisory boards dealing with land use planning and environmental management.
>
> Financial compensation under the agreement has a present value of $45 million in 1977 dollars; socio-economic measures to aid the Inuvialuit in building a sound economic base include a $10 million enhancement fund (Department of Indian Affairs and Northern Development Annual Report 1983/84:17).

In these cases the Bands have a very serious problem of the financial management of substantial resources, while not necessarily having the experience or managerial skills to do so efficiently and effectively.

The Samson Band has invested in a diverse range of businesses.

> The Samson Band has used some of its wealth to buy a general insurance company, establish a federally chartered trust company that now manages assets of about $90 million, establish a furniture manufacturing company, an engine rebuilding factory and a real estate operation that has, among other things, purchased apartment buildings in Edmonton.
>
> In addition, the 2974 member Band operates a large corporate ranch. Part of the ranch is not on reserve land.
>
> The situation is such that few Band members work off the reserve.
>
> The Band may also get into the life insurance business, according to band consultant David Nicholson. It has targeted financial services as the key industry it wants to operate in. In line with that target is its 9.9 per cent shareholding in the Bank of Alberta (Barnes, 1984).

Whether such a conglomeration of activities conforms to some overall strategy, or whether it is the result of a series of ad hoc decisions, without a formal plan, is open to question. Whatever else it does, though, it must stretch the available managerial resources extremely thin.

Somewhere in between the two extremes, there are Native businesses which have, against all the odds, managed to raise sufficient finance to push forward their chosen enterprises.

Fifty-two of the sixty-nine Bands in Saskatchewan have pooled their resources and launched the very successful company Sinco Development Limited. This operates mainly in trucking, retailing, and security services, but also has other interests.

An alternative route to financing was taken by the Red Earth Band (also Saskatchewan). In 1984 they launched Red Earth Energy Limited on the Vancouver Stock Exchange. Between 400,000 and 800,000 shares were offered to the public at 45¢ each. This issue would raise between $150,000 and $300,000 (net of issue costs), which is very small beer by Stock Exchange standards. The proceeds were to be used for mineral (particularly uranium) exploration. By mid-1986 the shares were being traded for less than half of their issue price, so it is not really a brilliant success story.

This case highlights the difficulty a Native business would have in going to the organized capital markets for funds. Although there are four stock exchanges in Canada (Toronto, Montreal, Vancouver and Alberta), and although each of these has a substantial new issue business, Native businesses are likely to be too small to justify the expense of public floatation, and even where floatation might otherwise be possible, the lack of any history of success will militate against the issue being successfully taken up. If public issues are to be made, however, the Western exchanges (Vancouver and Alberta) which are more venture capital minded, are likely to be more successful vehicles than those in Toronto or Montreal, which have a more conservative attitude.

Approaches for Native Business

Summary

In the above sections it has been shown that there is a range of possibilities, both for the type of business opportunity, and also for the sources of capital, for Native businesses. They do not all, however, have the same probability of success, nor do they entail the same opportunities or costs.

As far as business is concerned, for a variety of reasons a modest sized organization appears to have a greater chance of being successfully started, and successfully operated. It suggests a high probability of success, at the expense of relatively low payoff. Most importantly it limits the need for capital, and enables specialization and expertise to be seen, all of which goes to improving the probability of successfully raising initial capital. The subsequent success of the business will, in due course, encourage investors to invest. An interesting question, which as yet remains unanswered, is the relationship this bears to the traditional values

of Native societies. If, as seems probable, there is a congruency here with those values, then there exists the possibility of economic development without selling out to the westernized industrial model. The implications for Native businesses are considerable.

When capital is raised to finance ventures, both equity and debt have a role to play. The equity stake of most owner/operators is likely to be small, except in those cases of comparatively rich Native entrepreneurs. Even so, efforts could be made to raise capital through the family/Band, in order that this equity stake be as large as possible. This equity stake then becomes a key factor in negotiating for debt financing. The higher the equity stake, the less risk the debt holder has to carry.

There is substantial room for improvement to current support and development schemes. One possibility would be that of adding equity financing to the existing grants, loans and guarantees. In most lesser developed countries, and even in some industrialized nations, there are development banks which exist to invest equity capital in worthwhile businesses. Worthwhile in this context would include not only profitable ventures, but also high risk ventures with long term profit potential, ventures which have developmental implications, and ventures which promote social aims, such as reducing unemployment. Obviously such a set of objectives would be costly, and such a development bank could not expect to be self- sustaining in commercial terms. There is a need for this type of institution in Canada, catering specifically to Native businesses.

A second opportunity for improving access to equity financing for Native businesses, would be for those Bands which are comparatively well off, to launch some sort of venture capital fund, to invest in other Native businesses. It is suggested that they might find such investments to be in keeping with their own ideals, and that they would be sympathetic to the needs and problems of Native businesses, in ways which regular investors would not. As their reward, they would eventually enjoy a share in the success of the Native businesses they had supported. If taken to the extreme, such an organization could, itself, constitute a specialized form of development bank.

A third opportunity would be for the setting up of a public corporation, which could be floated on one of the stock exchanges, which had the objective of taking equity positions in Native businesses. While some investors might be cautious about such a company, many others would be sufficiently open minded (or even philanthropic) to invest.

Debt capital is always a very problematic issue. Its benefits depend on a mix of risks and costs. One of the most significant aspects of cost saving, under normal conditions, is a tax advantage. Interest on debt is considered to be a business expense and is tax allowable.

Dividends to shareholders are not a tax allowable item. As Native businesses are commonly exempt from taxation, this substantial benefit does not apply. The rationale for using debt to lower the overall average

cost of capital thus largely falls away. Even without this, though, there is a gap between the rate of interest paid on a loan, and the average return paid to an equity investor. This will confer a small benefit on the business using debt finance. In return, the risk (variability of return and probability of bankruptcy) will increase. Whether or not the tradeoff is justified is a matter for individual judgement, and the personal preferences of the businessman concerned.

Be that as it may, a more important factor in deciding to take on debt financing, is that it may be the only form of financing available, particularly in view of the equity shortage described above.

Given that the Native business will probably need to raise debt financing, all possible attempts should be made to utilize any subsidy or guarantee programmes which are available. Sometimes this will have ramifications for the way business is to be done. Judgement is necessary to decide whether the degree of interference is justified by the accessibility of loans.

As with equity financing (above) there is room for improvement to existing rules and systems. Lenders should be more open to loans based on operating predictions, rather than those tied to seizable fixed assets. If development banks became involved, perhaps loans convertible into equity would provide both parties with advantages unrealizable through conventional forms of investment.

Underlying the above analysis is a series of important questions, answers to which have to be largely assumed, in the absence of hard evidence. These would include:

1. What do Natives want? Do they want to become assimilated into the North American economic model, do they want to return to their pre-European invasion culture, do they want to develop alternative models of entrepreneurship which are capable of existing with a foot in both of the above camps?
2. What can the Native businesses do? Are they restricted in their scope due to some inherent trait of their operators or some insurmountable aspect of their environment, or do they have the opportunity to succeed at anything to which they turn their hand?
3. What do the Federal and Provincial Government want? Do they want to give Natives and Native businesses a chance to achieve development on a scale as yet unseen, or do they want to keep them in economic (and hence, political) subjugation.
4. What do Canadian investors (individuals, banks, or other institutions) want? Is there a willingness to invest (either debt or equity) in a relatively high risk situation, where the rewards may be an inadequate monetary return, but where the return may be measured better in terms of the good it would do in the longer term, or are such investors only interested in a short term, low risk, monetary reward?

Further research is needed to provide the answers to the above questions. If we had the answers, we could suggest a rational plan for the pursuit of relevant goals. In their absence I offer this paper as a tentative exploration of some of the most serious problems facing the financing of Native businesses.

NOTES

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