New hope: Federal government announces Federal Indigenous Loan Guarantee Program

April 17, 2024

Federal budget 2024 (Budget 2024) sheds a bit more light on what the federal government has planned for the Indigenous Loan Guarantee Program, which was initially referenced in the 2023 Fall Economic Statement. The federal government's efforts are welcome additions to existing programs from various federal and provincial stakeholders that have been designed to facilitate meaningful Indigenous participation and ownership in natural resource and energy projects.

In this update, we have included summaries of federal and provincial loan guarantee programs. Loan guarantees are one important factor of a multitude of considerations that impact the viability of a project and the partnerships that are formed in respect thereof. Fundamentally, many Indigenous communities see equity participation as the gold standard of being meaningfully included in a project. However, the cost of ownership is one that is left with the community to finance.

Theoretically, loan guarantee programs reduce the cost of borrowing because the guarantor provides a backstop to the lender that is providing funding to the Indigenous community to acquire its ownership interest (commonly referred to as an equity loan). This reduces the lender's risk, and by extension should reduce the borrowing costs of the equity loan that are payable by the Indigenous community. In the event of a default, the lender will turn to the guarantor to pay for promised loan repayments that were agreed to by the Indigenous community.

Practically speaking, loan guarantee programs typically superimpose additional conditions that the applicant must comply with to ensure the guarantor's risk considerations are addressed. Depending on the existing conditions that relate to a project, this can add additional diligence burdens on Indigenous communities that seek to obtain equity financing. This can be especially challenging when program requirements differ or lead to duplicative efforts. The commitment in Budget 2024 to provide $3.5 million over two years to support capacity funding for Indigenous communities and applicants is a meaningful tool that should support applicants in the process.

Moreover, the federal government has heard and responded to a call from the Indigenous sector to design this loan guarantee program to be sector-agnostic.

Budget 2024 specifically indicates that the program will be sector-agnostic for natural resource and energy projects to “prioritize economic reconciliation and self-determination”. This helps to create more equality in the opportunities for equity participation that are available to Indigenous communities. Canada is a resource diverse country with multiple development opportunities across and within key economic sectors. As a matter of policy, providing an opportunity to Indigenous communities to obtain federal guarantee support regardless of the nature or character of a natural resource or energy project is an important acknowledgement that economic participation by Indigenous communities as equity partners requires a broader approach in order to achieve Canada’s reconciliation objectives.

The below outlines the details announced in Budget 2024 together with a summary of the existing provincial guarantee programs.

Federal

With the release of Budget 2024 on April 16, 2024, the Government of Canada outlined the details of the long-awaited Federal Indigenous Loan Guarantee Program.

The federal government has committed up to $5 billion in guaranteed loans to enable Indigenous communities to have greater access to affordable capital helping to unlock opportunities for equity ownership in major resource projects. The key takeaways of the new program are as follows:

- Potential applicants of the new program include Indigenous governments and their wholly owned and controlled entities;
- The program will be sector-agnostic; and
- Natural Resources Canada will be responsible for intake and capacity building and the Canada Development Investment Corporation will be responsible for the creation of a new subsidiary to provide due diligence on the applications and administer the loans.

In designing this program, the federal government endeavoured to align it with the approaches undertaken by Ontario, Alberta, Saskatchewan, and British Columbia in their respective Indigenous loan guarantee programs.

British Columbia

Most recently, in British Columbia, as part of the 2024 Budget and Financial Plan, the provincial government indicated it would introduce a First Nations Equity Financing Framework and legislation to create a new provincial Indigenous equity loan program called the First Nations Equity Financing special account. While still subject to legislative approval, the legislation provides the special account with:

- A $10 million inaugural balance to support immediate capacity needs for First Nations considering equity interests in priority projects and for provincial costs to operationalize a new loan guarantee program;
- Authority for Treasury Board to dedicate portions of revenues realized through prioritized projects to the special account; and

- Authority for Treasury Board to expedite provincial government guarantees for equity loans undertaken by First Nations for the purpose of acquiring an equity interest in priority projects. Consistent with the approach in other jurisdictions, the special account will have a cumulative loan guarantee limit of $1 billion and will be reviewed annually.

Alberta

Alberta's program is provided by the Alberta Indigenous Opportunities Corporation (AIOC). The AIOC provides loan guarantees to Alberta-based Indigenous Groups with a minimum value of $20 million and up to $250 million for projects in the natural resources (energy, mining, and forestry), agriculture, telecommunications and transportation sectors. Applications for a guaranteed loan can be submitted by a single Alberta-based Indigenous group or a consortium of Indigenous groups. In the case of a consortium, at least one Alberta-based Indigenous group must be included as a participating investor and Alberta-based indigenous ownership must constitute at least 25% of the total investment proposed by the Indigenous consortium.

Saskatchewan

In Saskatchewan, the Saskatchewan Indigenous Investment Finance Corporation provides loan guarantees of at least $5 million and up to $75 million to Indigenous communities and entities for equity investment in eligible natural resource development and value-added agriculture projects. Eligible natural resource development projects include forestry mills, mining, energy, and renewable energy projects but does not include mineral or oil and gas exploration. Eligible value-added agriculture projects include canola crushing, pea processing, oat milling, malt production, and cannabis oil processing but does not include facilities solely dedicated to cleaning, bagging, handling or storage of primary products.

While Saskatchewan-based projects are given preference, projects in other Canadian jurisdictions may be considered where a significant economic benefit to Saskatchewan can be demonstrated.

Ontario

In Ontario, the Aboriginal Loan Guarantee Program (ALGP) was formed to support the creation of electricity infrastructure projects, including renewable energy infrastructure, on projects over $5 million and up to $50 million per project. The ALGP typically provides a guarantee of up to 75 per cent of the Indigenous entity's equity investment in an eligible project and is available to entities that are wholly owned by Indigenous communities.

Projects seeking an ALGP guarantee are subject to a due diligence process administered by the Ontario Financing Authority to ensure their commercial viability. The decision to grant an ALGP guarantee is discretionary. To meet the eligibility criteria, proposed projects must include the following:

- Experienced proponents and project partners;

- An agreement in place to purchase energy or regulatory approvals for rate-regulated projects; and
- A financial plan that is approved by the province of Ontario.

If you have any additional questions about this update, please contact the any of the authors or key contacts listed below.

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