



First Nations
**FINANCIAL
MANAGEMENT
BOARD**

**CONSEIL
DE GESTION
FINANCIÈRE** des
Premières Nations

The First Nations Financial Management Board's Submission for the 2023 Pre-Budget Consultations

October 8, 2022

List of Recommendations:

- **Recommendation 1:** Support the ongoing success of the Indigenous-led *First Nations Fiscal Management Act* by providing the FMA institutions with increased, stable, long-term, predictable funding.
- **Recommendation 2:** Create the Indigenous-led First Nations Infrastructure Institute as an institution within the *First Nations Fiscal Management Act* and provide proper funding.
- **Recommendation 3:** Advance risk-managed opportunities, in partnership with the Indigenous-led *First Nations Fiscal Management Act* institutions, to monetize federal transfers to finance infrastructure over the lifespan of assets.
- **Recommendation 4:** Provide proper operational funding to create the Indigenous Council on Financial Regulation and Reporting Standards.
- **Recommendation 5:** Provide proper operational funding to create the Indigenous Investment Commission.
- **Recommendation 6:** Scope out the creation of an Indigenous Development Bank.

Recommendation 1: Support Indigenous-led solutions with stable funding

No one is satisfied with the status quo.

First Nations in every part of Canada are trapped in poverty, face serious socio-economic gaps, and are segregated from the economic system that underpins the rest of the Canadian economy.

That was the deliberate intent of the *Indian Act*, and it was successful in that ambition for much of Confederation – with tragic consequences.

Despite colonial barriers, Indigenous people are asserting their Constitution-affirmed rights and creating opportunities to grow their economies, including through optional pathways such as the *First Nations Fiscal Management Act* (“FMA”).

The First Nations Financial Management Board (“FMB”) is one of three Indigenous institutions created by the FMA which passed with all-party support in 2004.

We work with First Nations across Canada to build financial and administrative governance capacity and certify First Nations that meet high international standards for financial management.

These certifications help open the door for economic growth. As of today, **336 communities** have opted into the FMA.

**In short, we are supporting First Nations in moving from
managing poverty to creating wealth –
*on their own terms.***

This work advances self-determination and economic reconciliation and helps to implement the United Nations Declaration on the Rights of Indigenous Peoples (“UNDRIP”). Data indicates that, with the support of the three FMA institutions, First Nations are:

- creating healthier communities
- generating their own revenue sources
- reducing the need for federal support, and
- promoting the development of regional economies.

Today, we are asking for your support.

We can UNLOCK the Indigenous Economy

Indigenous territories are intertwined with Canada's natural resource-based economy, and have the fastest growing population in Canada. Yet, it is estimated that the Indigenous employment and income gap is \$27.7 billion.

For us, this cost represents the opportunity for change.

The potential to support self-determination, lift hundreds of thousands out of poverty, and boost Canada's annual GDP by 1.5%.

This would have enormous benefits for First Nations, all levels of government, and the Canadian economy. It will reduce financial and legal risks for the Government of Canada.

Systemic change starts with supporting Indigenous-led initiatives, like the FMA institutions.

According to a 2003 study by the Harvard Project on American Indian Economic Development and the Native Nations Institute for Leadership, Management, and Policy, economic development is not just the result of natural resources, education, geographic location, or chance. The same principles that underpin international economic development apply to First Nations here in Canada: a need for strong governance and strong institutions.

In a Canadian context, this means Indigenous self-governance that is accountable to its people and has institutional supports to promote good governance and economic development.

Those are the foundations to supporting First Nations economic development, a critical step to bring UNDRIP to life.

The *Indian Act* has created a poor investment environment for First Nations communities. Basic information may be unavailable to investors, and a labyrinth of federal bureaucracy prevents meaningful change.

Within this harsh ecosystem, only those with high risk tolerance and patience invest.

The *Indian Act* is not an environment for economic development. It is a desert.

The Indian Act is a failed system. But the FMA framework was created to be a pathway for First Nations to step back into the economy and manage their own communities, their own economies, and their own futures.

We believe that is a goal all of Parliament shares.

Our mandate is grounded in the UNDRIP-affirmed right of Indigenous peoples to establish their own institutions and engage freely in economic development. It promotes better investment climates, drives private sector growth, and higher business success rates.

Since our establishment, the FMA has become an incredible, Indigenous-led success story.

- Over \$2 billion in debenture financing, at an AA credit rating, has been raised for Indigenous-led ventures, and 17,000 new jobs created.
- Own-source revenue for First Nations with our Financial Management Systems (“FMS”) Certification increased by an average 6% between 2014 and 2019.
- Communities with FMS certification score measurably higher on the Community Well-Being Index and generate a higher proportion of their revenues independent of government sources.

We are asking the Government of Canada to support Indigenous institutions with increased, stable, long-term, and predictable funding, so that we can continue supporting First Nations as they build thriving communities.

The Government of Canada should also look at expanding fiscal powers of First Nations governments. Right now, First Nations are *the most transfer dependent* governments in the country. Where other levels of government have fiscal powers and financial tools, First Nations have limited resources to fund community services and infrastructure.

Greater autonomy requires First Nations have the ability to raise funds for themselves. Initial steps could include a First Nations Resource Charge on resources extracted from First Nations’ traditional territories, and revenue sharing from federal fuels, alcohol, cannabis, and tobacco sales taxes.

First Nations Infrastructure Institute

**Will put
First Nations in the
driver’s seat for
building quality,
sustainable
infrastructure in
their communities.**

- **Clean drinking water**
- **Wastewater systems**
- **Roads**
- **Schools**
- **Hospitals**
- **And more**

Recommendation 2: Closing the Infrastructure Gap

It's well-known that First Nations face a shocking infrastructure gap.

Far too many Indigenous peoples experience developing world conditions within one of the world's wealthiest nations. The need will likely become more severe in the future.

The infrastructure gap is the result of government programs and policies failing to recognize and respond to the needs of Indigenous communities.

Three key facts:

1. It would cost \$30 billion to provide First Nations with the same level of infrastructure that the rest of Canada enjoys, according to the Canadian Council for Public-Private Partnerships.
2. It takes **5 times** longer for on-reserve infrastructure projects to become shovel-ready, compared to off-reserve projects.
3. Due to the *Indian Act* and other colonial restraints, First Nations face barriers to infrastructure development that other governments do not.

Rather than wait for proposal-based funding from Ottawa, First Nations want to build infrastructure when they need it. By-First Nations-for-First Nations solutions cannot be realized without support from the Government of Canada.

We recommend that the federal government **create the First Nations Infrastructure Institute ("FNII")** as an institute under the FMA and provide proper funding.

This support will produce **cost-effective and sustainable infrastructure assets**: infrastructure constructed on time and on budget; infrastructure that lasts longer.

FNII will:

- Provide tools and capacity development
- Support best practices to plan for whole of life costs, procurement, operations, and maintenance
- Provide technical support and advisory services
- Support due diligence on monies invested in infrastructure

We ask that you support the creation of FNII to bridge the infrastructure gap and help improve outcomes in First Nations communities.

Recommendation 3: Monetize federal transfers

First Nations communities have a significant challenge to secure funds for infrastructure. While municipalities can issue bonds, First Nations typically have proposal-based federal transfers and a patchwork of own-source revenue from their business enterprises, royalties from natural resource development, or other sources.

Another step to addressing the infrastructure gap is monetizing federal transfers.

This tool would finance infrastructure over the lifespan of the asset and could be created through the risk-managed FMA institutions.

Further, First Nations should have the option to use multiple revenue sources. This would extend their financing ability beyond federal provisions by bundling or stacking eligible revenue sources.

Any models for monetization should follow these principles:

- Securitization of federal revenue streams for long-term infrastructure financing
- Risk management and assurance through FMA framework
- Fair and transparent formulas to determine infrastructure funding levels across regions

Recommendation 4: Include Indigenous Peoples in standard-setting

Indigenous people should be included in the standards and regulations that impact them. Ensuring Indigenous voices are at the table is another step to bring UNDRIP to life.

Sustainability, ESG and climate change standards are under development both nationally and internationally in the accounting, securities, and corporate sectors. These standards will impact First Nations' rights and economies.

Urgent engagement is needed.

First Nations have a limited capacity to participate in consultations. That capacity is possible with aggregation.

We propose that the Government of Canada create and fund the **Indigenous Council on Financial Regulation and Reporting Standards**.

The Council would:

- **Provide expert, Indigenous-based feedback** as standards and regulations are developed.
- **Act as an Indigenous intermediary** between financial regulatory bodies at the federal and provincial level, and Indigenous governments.
- **Consult and cooperate with Finance Canada** and provincial counterparts.

- **Be a forum for collaboration** with standard-setting and regulatory bodies in the banking, insurance, securities, and pension fields.

Such a national forum could discuss proposed new or amended standards and regulations – and their effects on Indigenous Peoples – with Indigenous governments, organizations, and rights holders.

Recommendation 5: Unleash Indigenous investments to advance economic reconciliation

According to RBC, as much as \$20 billion of investment assets are held in trusts for Indigenous people. *The number could be much higher.*

Yet, Indigenous investments continue to receive a poor return compared to other levels of government. A solution is needed to unlock the full potential of funds held by Indigenous governments and organizations in Canada.

We propose **the creation of the Indigenous Investment Commission (“IIC”)**.

The IIC could as an investment asset management regime for First Nations, similar to the Caisse de dépôt et placement du Québec and other provincial asset managers.

First Nations could pool their investments and achieve economies of scale to receive better rates of return and better diversification than through conventional asset managers or through the low returns paid on Indian monies.

The Commission could also perform the role of an Indigenous pension manager – something that currently does not exist for First Nations government employees in roles similar to those in other levels of government.

The Indigenous Investment Commission will advance Indigenous leadership in investment management and provide greater risk-adjusted rates-of return at lower costs – thus increasing funds for community services and economic development.

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It’s another optional pathway for Indigenous governments and organizations to leave behind colonial systems and embrace an Indigenous solution.

Recommendation 6: Provide more capital to fuel growth

The lack of capital restricts economic development for First Nations communities. First Nation-owned businesses and Indigenous entrepreneurs do not have access the financing markets that support the mainstream economy. A 2017 report by Waterstone Strategies estimated that First Nations- and Inuit-owned businesses only accessed 0.2% of available credit in Canada and could access *11 times less* market-based capital than most comparative Canadian firms.

There are several financing gaps in First Nations economies. Canada should **scope out the creation of an Indigenous Development Bank** to address these financing gaps and spur economic growth.

The Indigenous Development Bank could address gaps in four gaps in financing:

1. Economic development infrastructure loans to Indigenous entrepreneurs, Indigenous Government businesses, and non-Indigenous businesses to develop on-reserve business-owned infrastructure such as resorts, stores, or manufacturing centres
2. General business loans to Indigenous entrepreneurs and Indigenous Government businesses
3. Capital injection loans to the National Aboriginal Capital Corporations Association and its network of Aboriginal Finance Institutions
4. High-value loans for commercially viable infrastructure and major projects, backed by federal/provincial government loan guarantees

Closing: Support successful and optional Indigenous-led pathways

Our track record is clear.

We are supporting 336 First Nations across Canada to build vibrant communities and long-term economic growth, on their own terms. This is UNDRIP coming to life and has enormous potential to reduce dependency on government spending.

By-First Nations, for-First Nations solutions need support from the Government of Canada.

This is how we move the needle forward together on economic reconciliation and self-determination.