

# **The First Nations Financial Management Board's Submission for the 2024 Pre-Budget Consultations**

**August 4, 2023**

**List of Recommendations:**

Budget 2023 commits Indigenous Services Canada to support the co-development of an Economic Reconciliation Framework with Indigenous partners. This framework is supposed to build on the strong foundations of recent Indigenous-led initiatives including the First Nations Financial Management Board's RoadMap project.

We recommend the following actions in Budget 2024 to move this framework and, more importantly, Indigenous Peoples forward.

- **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:** Fulfill the federal government's commitment to establish a New Fiscal Relationship between Canada and First Nations by co-developing its implementation with First Nations governments, institutions, and representative bodies through the initiatives recommended by the Joint Advisory Committee on Fiscal Relations
- **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.

It's time for systemic changes that put First Nations in the driver's seat.

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 the four 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, **354 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, and
- promoting the development of regional economies.

Today, we are asking for your support.

We can UNLOCK the Indigenous Economy

The territories of Indigenous Peoples are intertwined with Canada's natural resource-based economy, and they have the fastest growing population in Canada. Yet, FMB estimates that the Indigenous employment and income gap is nearly \$18 billion per year.

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 nearly a whole percentage point.

All Canadians would benefit from a GDP boost of this level.

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

According to 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, an environment of political uncertainty without adequate legal frameworks, property rights, needed infrastructure, or commercial norms. 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 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.

- Nearly \$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.

- The First Nations Infrastructure Institute was just created by Parliament this year through amendments to the FMA.

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.

## **Recommendation 2: Co-Develop a New Fiscal Relationship**

First Nations require more authority over their own affairs, more revenue-raising powers to fund the cost of governing, and institutions that support effective governance.

Following the election in 2015, Ministerial Mandate Letters promised “real change” in the Crown-Indigenous relationship. In 2016, the Government of Canada announced it would be pursuing a new fiscal relationship (NFR) with First Nations governments to address the socioeconomic disparities between Indigenous and non-Indigenous Canadians. In 2019, the Joint Advisory Committee on Fiscal Relations (JACFR) released a report laying out 24 recommendations for a new fiscal relationship.

Yet seven years after announcing a new fiscal relationship, progress has been slow. The Government of Canada has not articulated a compelling vision for a new fiscal relationship and its departments have not shown the ambition to advance anything beyond incremental change. The contrast between the language of transformational change and the lack of substantial change in the fiscal relationship is stark.

***Now is the time to co-develop and implement the new fiscal relationship through a whole-of-government approach that ensures coherence, communication, and collaboration between all departments.***

Key elements of this fiscal relationship must include:

- Advancing the capacity of First Nations governments to exercise authority and revenue generation.
- Permanently increasing Band Support Funding to address long-standing funding shortfalls.
- Abolishing the Default Management and Prevention Policy and replacing it with a system of capacity building supports.
- Piloting of a formula-based transfer model through FMB’s Governance Modernization Pilot Project.

## **Recommendation 3: Monetize federal transfers**

First Nations communities have a significant challenge to secure funds for badly needed 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.

*An important 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, including the new First Nations Infrastructure Institute.

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 a requirement under Article 19 of UNDRIP.

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.*

Yet, 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**.

We are proud to be joined in this proposal by the Independent Review Committee on Standard Setting in Canada.

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, accounting, and pension fields.

This Council could engage on proposed new or amended standards and regulations – and their effects on Indigenous Peoples – with Indigenous governments, organizations, and rights holders.

### **Recommendation 5: Create the Indigenous Investment Commission**

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 be 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.

*Better rates of return mean more money for Indigenous peoples to invest in community services or economic growth themselves, without waiting for the federal government’s funding cycles and proposal-based transfers.*

The Commission could also perform the role of an Indigenous pension manager – something that currently does not exist for First Nations governments’ 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 Indigenous solution that provides an optional pathway for Indigenous governments and organizations to meet the needs of their communities.

### **Recommendation 6: Provide capital through an Indigenous Development Bank**

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. The Government of 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. High-value loans for commercially viable infrastructure and major projects, backed by federal/provincial government loan guarantees.
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. 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.

### **Closing: Support successful and optional Indigenous-led pathways**

Our track record is clear. We have provided a [RoadMap](#) to move forward.

We are supporting 354 First Nations across Canada to build vibrant communities and long-term economic growth, on their own terms. This is UNDRIP coming to life.

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

This is how we move the needle forward on economic reconciliation together.