

FIRST NATIONS FINANCIAL
MANAGEMENT BOARD



The RoadMap Project

CHAPTER FOUR: UNLOCKING FIRST NATIONS ECONOMIES



First Nations
**FINANCIAL
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BOARD**

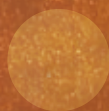
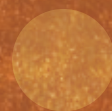
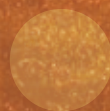
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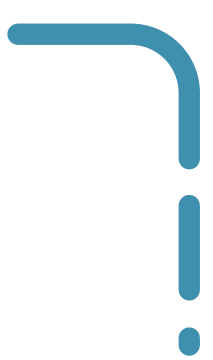
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EXECUTIVE SUMMARY



THE FUTURE PROSPERITY OF CANADA depends on the current prosperity of Indigenous Peoples. With territories that are intertwined with Canada's natural resource based economy, and with the fastest growing populations in Canada, Indigenous prosperity means Canadian prosperity. We must find a way to move forward as a country, while addressing an annual income gap of \$27 billion and the systemic barriers that have constrained Indigenous economies for over a century. Despite these challenges, what if a strong Indigenous economy could provide a \$100 billion boost to the Canadian economy?¹

There are success stories out there, but not enough. It begs the question of why some Indigenous Nations are building prosperous communities, while others are not. What will it take to unlock the Indigenous economy?

Economic development is not just the result of natural resources, education, geographic location, or chance.² The same principles that underpin international economic development apply to First Nations here in Canada: a need for strong governance and strong institutions.³ In a Canadian context, this means Indigenous self-governance that is fully funded, accountable to its people, and has institutional supports to promote good governance and economic development.

Unlocking the Indigenous economy will require more support for First Nations governments to move beyond the limitations of the *Indian Act*, and create environments that promote economic development. It will require new frameworks and new tools that support the growth of balanced mixed economies, characterized by investment from privately owned Indigenous businesses, Indigenous Government businesses, and non-Indigenous businesses.



The *Indian Act* has created a poor investment environment for First Nations communities – an investment climate that Indigenous thought-leader Carol Anne Hilton refers to as “*Indian Act* economics.” The *Indian Act* has created an environment of political uncertainty without adequate legal frameworks, property rights, competitive infrastructure, or the rule of law. 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 or resources will invest. The *Indian Act* is not an environment for economic development. **It is a desert.**

Indian Act economics is a failed system and no level of government is satisfied with this status quo. It traps First Nations governments in poverty and segregates them from the financial systems that underpin the rest of the national economy. All levels of government are now looking for ways to move beyond this status quo. Canada has stated its intention to implement the *United Nations Declaration on the Rights of Indigenous Peoples*, while First Nations are now asserting their rights and finding ways to participate in local and regional economies. Through optional legislation such as the *First Nations Fiscal Management Act* (FMA), First Nations are making progress.



The FMA institutions and their partners represent an alternative system that empowers First Nations governments to bypass the limitations of *Indian Act* economics. The FMA institutions support First Nations governments to build ecosystems – investment climates – that nurture social and economic growth. Collectively, these institutions support the strong, stable governance that attracts investment. Together, the FMA institutions and their partners support a new institutional framework: the ingredients required for developing wealthy and sustainable First Nations economies and the institutional support to move from the old system to the new.

The new institutional framework includes the following elements:

- **Strong leadership, governance, and administration**
 - **Property rights certainty, through the *Framework Agreement on First Nation Land Management***
 - **Legal framework to support markets, including certainty of rules, processes, dispute resolution, and timelines**
 - **Fiscal relationships with the federal and provincial/territorial governments for revenues and services, including clarity over how jurisdictions raise revenue**
 - **Competitive infrastructure and financing**
- 

This new institutional framework is grounded in the UNDRIP right of Indigenous Peoples to establish their own institutions and engage freely in economic development.⁴ It promotes better investment climates, drives private sector growth and higher business success rates, and reduces “bungee economics” – when revenue earned on reserve is spent off reserve.

As the FMA institutions advance in their mandates, many First Nations governments will require more support to fully realize their economic potential, including the following:

- **Ongoing support for a new institutional framework**
- **Access to markets**
- **Capacity and tools**
- **Access to capital**



Each of the First Nations organizations under the FMA and the *Framework Agreement on First Nation Land Management* are a key support for the new institutional framework.

A NEW INSTITUTIONAL FRAMEWORK

First Nations governments require access to a new institutional framework that creates new possibilities beyond *Indian Act* economics. Each of the First Nations organizations under the FMA and the *Framework Agreement on First Nation Land Management* are a key support for the new institutional framework. We propose to formalize our collaboration through the creation of the Indigenous Economic Council (IEC). The IEC will coordinate the efforts of these First Nations organizations to advance the new institutional framework for the development of First Nations economies through legislative proposals, new initiatives, and capacity support. Other First Nations economic development organizations across Canada would join this council to coordinate support for the renewal of Indigenous economies. IEC will facilitate cooperation, knowledge sharing, and best practice sharing between the organizations dedicated to First Nations economic development. Like the FMA institutions, many of these economic development organizations are already supporting elements of a new institutional framework.

As this new institutional framework continues to develop, the success of the FMA institutions and their partners demonstrates that institutional support and legislative options outside of the *Indian Act* will empower change.

CAPACITY AND TOOLS

Many First Nations governments will require capacity support, training, and tools to build investment climates and grow their economies. IEC will coordinate support for First Nations to develop investment climates and fully realize their economic potential. Mirroring the success of First Nations such as Membertou, Squamish, and Westbank, the IEC organizations will support First Nations to adopt economic development planning as an integral part of community planning.

First Nations who choose to work with IEC will be able to develop their own community economic development plans, alongside experts in this field and other like-minded First Nations. By planning for economic development and investment, First Nations communities will identify comparative advantages, maximize their potential, and promote the growth of market economies.



Incorporating the principles of UNDRIP into the environmental, social, and governance (ESG) reporting framework will open new markets to Indigenous businesses.

ACCESS TO MARKETS

Incorporating the principles of UNDRIP into the environmental, social, and governance (ESG) reporting framework will open new markets to Indigenous businesses. It will incentivize the private sector to invest in, collaborate with, and procure from Indigenous businesses and entrepreneurs. Indigenous inclusion in ESG standards could also make Canadian companies more competitive. It will provide the means for Canadian companies that achieve good ESG ratings to access more affordable capital and the opportunity for the Canadian natural resource sector to become global ESG leaders.

The creation of a functional and credible database for Indigenous businesses will further promote Indigenous procurement opportunities in both the public and private sectors by linking Indigenous businesses to broader markets.

IEC will also promote access to markets by informing all levels of government on Indigenous economic policy. IEC will foster networks between like-minded First Nations, government, and the private sector. Domestic and international trade missions will enhance Indigenous exposure to national and international markets. Networked First Nations will benefit from new opportunities to participate in broader markets.

IEC can inform governments on Indigenous economic policy and identify new opportunities to promote Indigenous economic growth both domestically and internationally. This organization will promote Indigenous economic priorities internationally through forums such as the Organization for Economic Co-operation and Development.

The Government of Canada should support Indigenous inclusion in the ESG standards and resource the IEC.



ACCESS TO CAPITAL

First Nations businesses and entrepreneurs require access to capital. Currently they can access less than 0.2% of available credit in Canada and 11 times less market-based capital than comparative Canadian firms.⁵ The *Indian Act* undermines the property rights and legal protection of assets that drive mainstream financing markets, effectively segregating First Nations communities from the national economy. When on-reserve businesses and entrepreneurs cannot access financing, it bottlenecks Indigenous economies. The vast majority of Indigenous businesses today are microenterprises that cannot scale up without financing options.⁶

The creation of the Indigenous Development Bank will remove this bottleneck, unleashing Indigenous entrepreneurship, major projects, infrastructure, and economic activity. This new financial institution will address the unique capital needs of Indigenous economic development and bypass the structural barriers that have prevented the flow of capital.

Public development banks play a critical role in environments where limited capital deprives worthy businesses and stifles growth. Just as the Asian Development Bank transformed economies in Asia, the Indigenous Development Bank will reshape the economic landscape for Canada's Indigenous population. The Indigenous Development Bank is a pathway to prosperity beyond the colonial policies that have blocked First Nations from the commercial banking sector.



JOIN US ON THIS PATH

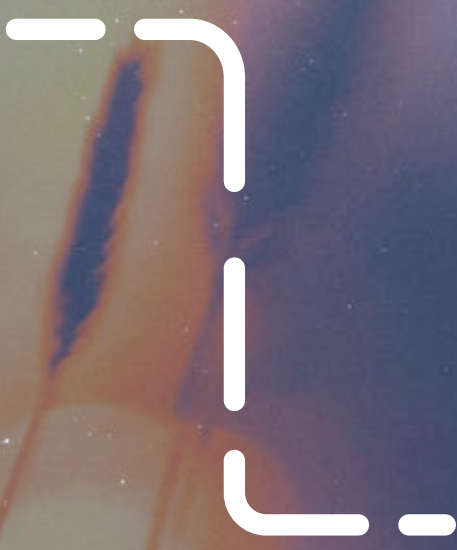
The FMA institutions believe that a \$100 billion Indigenous economy is possible right now and that it starts with supporting Indigenous initiatives. Inaction is no longer an option, nor are minor changes to systemic issues. The FMA institutions have created a marketplace of ideas where First Nations can choose better options within a new First Nations-led institutional framework. With 335 First Nations scheduled to the FMA and 194 signatories to the *Framework Agreement*, First Nations have seen the merit of these new options. The transition from the old system to a new framework will be a challenge, but with the right support, we can realize our economic potential.

The path forward is clear. It is time to unlock the First Nations economy.



INTRODUCTION

| It is not enough to have the
• right to self-determination...



The Foundation for Growth

DESPITE YEARS OF COLONIAL POLICY and economic devastation for First Nations, many First Nations governments have found ways to succeed. A 2003 study by the Harvard Project on American Indian Economic Development and the Native Nations Institute for Leadership, Management, and Policy explored this question: why do some Nations break free from poverty to build prosperous societies while others do not?⁷ Setting out to discover the conditions for Indigenous economic development, the authors demonstrated that the principles underpinning Indigenous success parallel the principles driving international development. Sustainable economic development is not primarily the result of natural resources, education, or geographic location.⁸ It is the result of Nations exercising their right to self-governance with the capacity to govern themselves. It is the result of Nations developing strong institutions of government that the citizens of those governments recognize and support.⁹ Strong governance creates the foundation for socioeconomic progress. With a solid foundation, growth becomes sustainable.

It is not enough to have the right to self-determination. As Stephen Cornell and Joseph P. Kalt note in *Rebuilding Native Nations*, “if sovereignty is to lead to economic development, it has to be exercised effectively.”¹⁰ First Nations governments require not only the right to govern, but also the tools to support good governance. A good framework for governing depends on management policies, practices, transparency, and participation of the government.¹¹

Governance shapes modern economies and societies across the world. The institutions of governance are the formal and informal rules of society, the means of enforcing these rules, and the procedures for mediating conflicts. Stable, fair, and transparent laws and processes are the “rules of the game”¹² for economies. Institutions of governance can create or destroy incentives for individuals and businesses to invest in certain jurisdictions, an environment that can either nourish growth or strangle development.¹³ If the institutions of governance are strong, they create environments that attract investment. If institutions of governance are weak, investment will flow towards better opportunities in other jurisdictions. Open, effective, and accountable governance removes barriers to growth and creates the conditions for success.¹⁴





The Harvard Project calls the development of these governance foundations “nation-building,” while the Tulo Centre of Indigenous Economics has referred to this approach as building an “investment climate.” The FMA institutions believe that First Nations governments can build on lessons learned from Indigenous nations in Canada and around the world in overcoming colonial barriers to build economies that support prosperous and healthy societies.

Through the *Indian Act*, Canada has legislated First Nations governments out of the national economy. Through optional legislation such as the *First Nations Fiscal Management Act*, First Nations have begun the work of legislating themselves back in. By creating alternatives to the *Indian Act*, First Nations-led legislation is an opportunity to develop the foundations for sustainable growth.

The FMA institutions support First Nations governments to build ecosystems that nurture social and economic growth. Collectively, the FMA institutions and their partners support the strong institutions of governance that attract investment.

As the FMA institutions and their partners continue to deliver on their mandates, they will empower Indigenous economies by coordinating their efforts to support the institutions of governance necessary for growth:

- **The Lands Advisory Board supports First Nations governments to re-establish control over their lands and resources through establishing and implementing land codes.**
- **The First Nations Tax Commission supports First Nations governments to exercise their jurisdictions through fair and efficient taxation regimes.**
- **The First Nations Financial Management Board (FMB) supports First Nations legal frameworks through rule of law, policies, and processes relating to financial administration. They work to support the capacity of First Nations governments to govern themselves effectively.**
- **The First Nations Finance Authority (FNFA) supports First Nations governments to access the capital needed to realize their community priorities.**
- **The First Nations Infrastructure Institute (FNII) will support First Nations governments to build competitive infrastructure that will not only meet the needs of their communities, but will attract investment.**



The FMA institutions can support First Nations governments to build strong economies by developing better investment climates and realizing their economic potential. This sector requires frameworks that support growth, tools to assess opportunities and plan for economic development, and access to capital. We believe that strong institutions of governance and the right supports will unlock Indigenous economies, facilitate Indigenous self-determination, and benefit First Nations and all Canadians.

The status quo is unsustainable. The cost of inaction is a \$27.7 billion Indigenous employment and income gap. For the FMA institutions, this cost also represents the opportunity for change: the potential to support First Nations self-determination, lift hundreds of thousands out of poverty, and boost the Canadian economy by at least \$27.7 billion.¹⁵

The impact of Indigenous economic growth will extend far beyond the borders of their communities and traditional territories.¹⁶ In 2021, MNP produced a study on the economic footprint of First Nations in Alberta and found that the Indigenous economy generated a GDP equivalent to Alberta's agricultural sector.¹⁷ Most spending by Indigenous households is off reserve. In Alberta, this spending generated approximately \$3.1 billion in total GDP and \$970 million in tax revenue.¹⁸ Closing the income gap through more economic growth would support up to 14,000 new jobs and generate \$500-600 million in annual tax revenues.¹⁹

With the fastest growing populations in Canada, Indigenous peoples will play an increasingly important role in the Canadian economy. The Government of Canada needs to realize that future growth depends on Indigenous economic development, which benefits not just Indigenous communities but all Canadians. Indigenous-led initiatives that support good governance, careful planning, access to markets, and access to capital will empower First Nations governments to grow their economies and attract private sector investment – from both within and outside of their communities.



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FIRST NATIONS
ECONOMIES
REQUIRE A NEW
INSTITUTIONAL
FRAMEWORK
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How Canada Legislated First Nations out of the National Economy

FOR MILLENNIA, THE INDIGENOUS ECONOMY flourished well beyond the borders later imposed by colonial governments. Long before there was a Silk Road or an Amber Road, Indigenous traders traveled the Nuxalk-Carrier Grease Trail, extending 450 kilometers throughout British Columbia.²⁰ For 6,000 years, this trail facilitated the exchange of goods and commodities, including the oil or “grease” of the eulachon fish.²¹ As settlers arrived, they used widespread Indigenous trade networks, the hallmark of a thriving economy, to unite modern-day Canada.²²

As Manny Jules states in a foreward to *Beyond the Indian Act*:

“Market economies were not foreign to us. We created them ourselves. We traded goods over hundreds of miles...Trade cannot be financed without capital. We had to build transportation methods such as boats. We had to build large public buildings and maintain armies to provide order. These required community investments based on a future return to the community and to individuals. Markets need institutions to facilitate trade. From Alaska to California, we agreed to a common trade language, Chinook. We recorded transactions relating to labour and goods. We built roads and trails that are still being used today. We used money such as dentalium shells and wampum strings...We created systems that supported and encouraged individual initiative and ensured we generated public resources to sustain our communities and advance our cultures.”²³



Prior to contact with Europeans, Indigenous nations exercised jurisdictions; cultivated corn, beans, squash, and tobacco; and developed inclusive governance and property rights systems. These advances supported a North American population that rivaled the population of contemporary Europe.²⁴ However, these formerly prosperous Indigenous societies are now among the poorest in Canada: a developing world trapped inside a modern state. What has caused this reversal? What changes destroyed an economy that had existed for millennia?

In the years following contact, colonial governments across the Americas simply legislated away Indigenous land and jurisdiction, and with them the Indigenous economy. Contact meant the loss of Indigenous lands and jurisdictions, the foundation of Indigenous economies, through treaties and reserve settlement. Colonial policies transferred traditional lands to the colonies (later to become provinces), bestowing land, property, and tax jurisdiction.²⁵ The provinces created institutions to register lands, deliver services, facilitate investment, and implement their jurisdictions.

By systematically removing Indigenous land rights and jurisdictions, colonial governments legislated the Indigenous economy out of existence, denying First Nations governments title even to their own reserves. The *Indian Act* of 1876 – the fourth oldest piece of legislation in Canada – states in s.2(1) that reserves are “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.”²⁶

Indian Act Economics

Generations of legislative erasure of First Nations rights, practices, and governance have deprived many First Nations of the institutions that supported their economies long before Confederation. Many First Nations governments, and individual Indigenous lives have been “run by a government department. They have been the victims of an extractive economy. Their institutional framework has been either destroyed or frozen.”²⁷ This is *Indian Act economics*.

For First Nations governments, the *Indian Act* has created a volatile investment climate that discourages investment. In this investment climate, only those with higher risk tolerance or greater resources will invest. It has created an environment of political uncertainty without legal frameworks, property rights, competitive infrastructure, or the rule of law, where basic information may be unavailable to investors, and where a labyrinth of federal bureaucracy prevents meaningful change.

The *Indian Act* is not an environment for economic development to take root and grow. It is a desert.



What is wrong with *Indian Act* economics? Many First Nations governments have locations and access to resources that are suitable to economic development, yet resources and location are not enough to create economic growth. As noted by the Tulo Centre of Indigenous Economics, both Peru and Kazakhstan have access to an abundance of natural resources compared to other countries such as Japan or Singapore. Both Peru and Kazakhstan, however, lack the strong institutions of governance required for economic growth and neither have achieved high standards of living.²⁸ Similarly, the *Indian Act* is a barrier to First Nations economies because it undermines the institutions of governance that support economic growth.

Under the *Indian Act*, First Nations have sub-standard institutions of governance that prevent investment rather than attract it. As the Tulo Centre of Indigenous Economics has observed, **“The barrier to prosperity on First Nation and tribal lands is an inability to provide sufficient certainty to investors.”**²⁹ Without title to their lands, a fiscal relationship that supports a public sector, or means of implementing and enforcing a legal framework, the First Nations investment climate is simply too risky to support business.

Jurisdictions that can provide certainty as well as suitable locations and resources are the ones that will attract investment. Jurisdictions that do not will see investment capital flow away from them, towards jurisdictions that offer more opportunity and less risk. Capital is mobile; it will gravitate towards places that promise the best return for the lowest risk.³⁰ If the cost of doing business is too high, business will go elsewhere, and economic development will be unable to flourish. As Dr. Tim Raybould observes, “Transparent and fair jurisdictions known for clear processes, independent institutions, and timely decision-making with the necessary physical infrastructure in place will have a very distinct advantage in attracting investment over jurisdictions that do not.”³¹

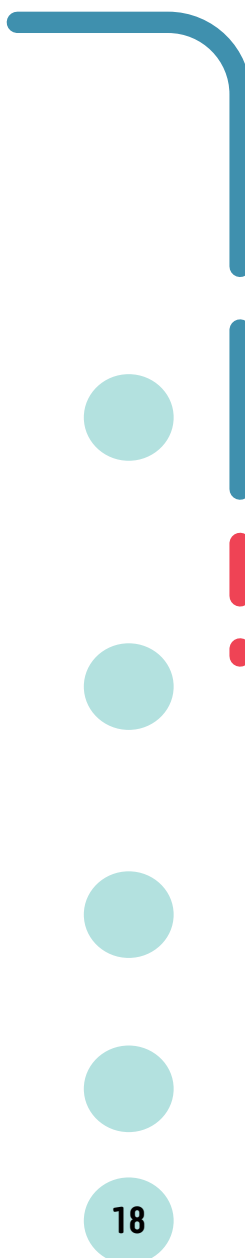
Other levels of government support economic growth by designing policies that will attract private sector investment within their jurisdictions.³² Their public sector role is to improve the investment climate by providing strong institutions of governance that support the private sector economy. Depending on their economic policy and the opportunities available, investment will either flow in or flow out.³³



For First Nations governments, the *Indian Act* has created a volatile investment climate that discourages investment. In this investment climate, only those with higher risk tolerance or greater resources will invest.



For First Nations, investment typically flows out of their communities, whether or not there is economic potential.



Canadian businesses, governments, and individuals have had access to stable and competitive markets for produced goods or extracted resources. Successful markets always provide some measure of protection for both producer and consumer. The Canadian banking system supplies access to capital and credit. The Canadian stock exchange provides a market where one can cultivate capital through investment. Canadian law builds, maintains, and protects property rights. Canadian federal, provincial, and municipal governments have a well-regulated tax system, which allows them to garner revenue and provide required infrastructure and social, health, and education systems, which also facilitates economic development. All of these elements, and more, make up the strong institutions of governance that nurture economic growth and prosperity for most Canadians.

For First Nations, investment typically flows out of their communities, whether or not there is economic potential. The high cost of doing business on-reserve has led to a situation where on-reserve households make more than 90% of all purchases off-reserve.³⁴ This effect is known as bungee economics, where economic gains flowing into communities bounces out to benefit non-indigenous community through service providence, or spending.³⁵ First Nations public sectors are much larger than their private sectors, because the *Indian Act* is hostile to business development. In Canada, the private sector makes up 95% of all investment in the national economy, with only 5% coming from government. On reserves, those figures are reversed.³⁶

Off-reserve jurisdictions can provide certainty for the role and accountability of governments, planning and approval processes for land development, transparency and fairness of supporting institutions, dispute resolution processes, and taxation policies.³⁷ Most on-reserve jurisdictions cannot provide this certainty. This investment climate resembles developing world conditions, and it is astonishing to encounter these conditions in a modern state. *Indian Act* economics results in a jurisdiction administered by the federal government without political or legal certainty and often in conflict with the systems of administration within the rest of Canada.³⁸ The Tulo Centre of Indigenous Economics has identified specific causes behind the high cost of doing business on-reserve within the *Indian Act* investment climate, including the following barriers:

Inadequate legal framework

Except in rare cases, First Nations jurisdictions have not established the laws and regulations required to provide investment certainty. Furthermore, the division of responsibilities between First Nations and federal/provincial governments is inefficient and unclear, which manifests in lengthy negotiations and delays in project approvals.

Political uncertainty

Many First Nations governments find it difficult to attract investment from both within and outside of the community because they lack business history and there is often a lack of consistency in policies after regime changes. Political instability creates the need to seek more certainty through contractual arrangements than is normally the case off-reserve.

Property rights uncertainty

There is currently no sufficient system of land registration in place for all reserves in Canada.³⁹ It is notoriously difficult to secure property right certainty from the federal government and the current property rights system does not support collateralization for financing.

Incomplete leadership, governance, and administration

Capacity limitations make it difficult to staff First Nations government administrations with qualified persons, which leads to individuals performing both political and administration roles. Since there are not always mechanisms in place to ensure the separation of politics from administration in the *Indian Act*, this environment can be unpredictable and unstable, with continuous political interference on projects.

Lack of infrastructure

Most First Nations communities would require new infrastructure or infrastructure improvements to accommodate large investment projects. Unfortunately, the systemic failure of the federal government to provide basic infrastructure, or means of financing infrastructure, has added yet another barrier to on-reserve economic development.

Inadequate fiscal relationship and project financing

Municipalities access financing by monetizing their tax bases; in other words, they take their expected future flow of tax revenues and create a debenture that finances a large amount of money up front (in order to finance a large expenditure like infrastructure) in exchange for the future flow of taxes. The current fiscal relationship, based on transfer dependency, means that most First Nations do not have stable revenue sources to fund services and infrastructure, or monetize financing.





What Needs to Change?



For Indigenous economies to take root and grow, First Nations require an investment climate that is more nourishing than *Indian Act* economics. As Stephen Cornell and Joseph Kalt point out in *Rebuilding Native Nations*, “When Native nations back up sovereignty with stable, fair, effective, and reliable governing institutions, they create an environment that is favorable to sustained economic development. In doing so, they increase their chances of improving community well-being.”⁴⁰

To build an investment climate means diminishing the power of the *Indian Act* through optional, Indigenous-led legislation supported by Indigenous institutions and organizations. Only then will First Nations governments begin to realize their economic potential.



A New Institutional Framework



The *Indian Act* economy does not require minor modifications – it requires systemic change. It has frozen First Nations governments in time for over 100 years, while provincial and local governments created supportive investment climates that propelled Canada to its status as one of the richest countries in the world.⁴¹ First Nations require a new system: a First Nations-led institutional framework that supports rather than deters investment. Colonialism destroyed the First Nations institutional framework that supported an economy. It is time to empower a new framework that will unleash the potential for First Nations to innovate and grow.

The Tulo Centre of Indigenous Economics has identified the systemic changes required to build sustainable First Nations economies. The changes outlined below are the ingredients of a new institutional framework, underpinned by research from Indigenous nations in Canada and around the world, as well as international development. They will create the systemic change required for sustained growth.

Leadership, Governance, and Administration

Entrepreneurs, businesses, or business partners – internal or external to the community – need to know that the First Nations government is committed to the economic development of its land. First Nations governments need to lead community planning for economic development and investment. Investors need to know that the First Nation government has fair and consistent policies and mechanisms in place to separate politics from the administration of the government. Investors need to know how First Nations governments make decisions and must have confidence that those laws and policies are consistently applied.⁴²

Secure Property Rights

Investors need to know that their property rights are secure in order to assess investment opportunities. Different types of developments and businesses require different types of property rights, such as rental and lease. A land registration system must enable title to land, as well as the transfer of property rights. This system must provide clarity for how a property right is transferred and how ownership is registered, protected, and managed.⁴³ Westbank First Nation (WFN) is a prime example, with leased land agreements with large corporations and land developers. There are approximately 10,000 residents and 500 businesses on WFN lands, including Walmart, London Drugs, Home Depot, and Superstore.⁴⁴

Legal Framework to Support Markets

Investors need to know how First Nations governments approve development plans and make decisions about land allocation, including permitted uses for potential development sites and neighbouring lands. Investors need certainty that land use allocation will not arbitrarily change and reduce their potential profits and must have clarity on the processes and timeline for proceeding with development.⁴⁵ The rules and processes must be clear and consistent. For investors to be confident in a jurisdiction, there must be transparency and accountability. Rules and processes must be consistently applied, with mechanisms to manage disputes.

Improving the on-reserve legal framework for movable assets (e.g. inventory, equipment, and other chattel) could empower in-community businesses to use these assets for financing purposes. The current on-reserve legal structure introduces uncertainty and risk, which limits using these types of assets for financing purposes. Off-reserve businesses could obtain financing with these assets, such as factoring their businesses' inventory. This is just one more example of how on-reserve businesses are disadvantaged.

Strength Through Working Together

Many First Nations face challenges in rebuilding their economies and institutions. These challenges do not have to be faced alone. First Nations governments can benefit by working with other Nations through a shared voice, greater economies of scale, and combined expertise. Some examples of how First Nations can work together include: pooled insurance and bonding opportunities, shared investment services, common infrastructure development and maintenance, and shared community services to name a few. The next chapter of the RoadMap will explore these opportunities in further detail, and will provide options for First Nations governments to work collaboratively when it benefits their communities.



Fiscal Relationship for Revenues and Services

Investors need to know which governments have the power to collect taxes. They need to know which governments are responsible for which services, how they pay for them, and how governments assure quality of service. Investors need clarity of service among First Nations, provincial, and federal governments and want to see stable First Nations government revenues that can ensure a high standard of services to support investments.⁴⁶

Competitive Infrastructure and Financing

Business development requires infrastructure and continuous local services such as water, sewer, roads, telecommunications, and high-speed Internet. Investors need to know if they can easily improve on existing infrastructure and if there is a development cost system in place. First Nations need access to the same financial tools to finance and maintain infrastructure as other jurisdictions, and First Nations require integrated capital and economic planning to attract private investment.⁴⁷

How First Nations will lead the way

First Nations thought leaders are already building a framework to support renewal of the First Nations economy. Self-government innovations such as the FMA and the *Framework Agreement on First Nation Land Management* provide options and capacity support for First Nations to occupy their jurisdictions and escape the limitations of the *Indian Act*.

The FMA institutions work in partnership with the Lands Advisory Board as part of the broader efforts of “First Nations Leading the Way,” a forum of like-minded First Nations at the forefront of expanding jurisdictions and greater independence beyond the *Indian Act*. These First Nations institutions and the Lands Advisory Board have created a marketplace of ideas, where interested First Nations can choose new options outside of the *Indian Act* system. New innovations will replace old colonial structures, leading to better alternatives and the freedom for First Nations to determine which path to take. With 335 First Nations scheduled to the FMA and 194 signatories to the *Framework Agreement*, First Nations are choosing to leave the limitations of the *Indian Act* in favour of the new institutional framework for nation-building.

Each of these First Nations organizations represents a key piece of the new institutional framework supporting economic growth. The Lands Advisory Board empowers First Nations to manage their lands while the First Nations Tax Commission supports First Nations to exercise their inherent rights to raise revenue. Together, these organizations are paving the way for First Nations governments to occupy their jurisdictions and build economies.

FMB certifications enhance the credibility of First Nations governments and provide assurance to stakeholders, while its capacity support bolsters First Nations leadership, governance, and administration. The FNFA provides the access to capital so crucial to governments, while the FNII will enable innovative approaches to infrastructure development based on leading practices. Finally, numerous Indigenous economic development organizations support First Nations governments and Indigenous entrepreneurs. Together, these organizations are the institutional support for a new framework to replace *Indian Act* economics.

The *Indian Act* investment climate is crippling First Nations economic development. Inaction costs Canadians \$27.7 billion every year in lost opportunity. Programs will never be enough to address the problems with this system. The Government of Canada, First Nations governments, and the FMA institutions understand this reality and seek progress. The FMA institutions believe that a new institutional framework, institutional support, and a network of Nations and organizations can empower change.

As these organizations continue to progress on their mandates, we propose to build on “First Nations Leading the Way” through the creation of the Indigenous Economic Council (IEC). IEC will coordinate the efforts of these First Nations organizations, and interested First Nations, to continue to build on the new institutional framework for the development of First Nations economies through legislative proposals, new initiatives, and capacity support.



New innovations will replace old colonial structures, leading to better alternatives and the freedom for First Nations to determine which path to take.





IEC will give Indigenous thought leaders a home and foster networking and partnerships between like-minded First Nations.



Towards an Indigenous Economic Council



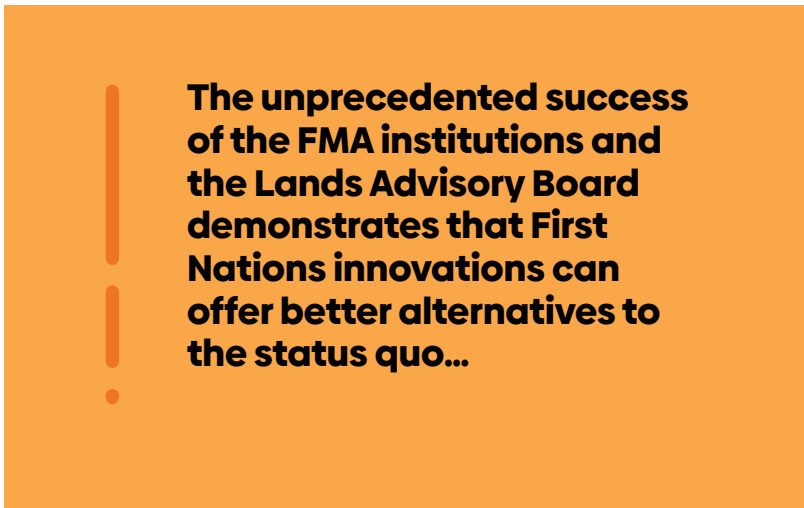
There is no single organization driving the conditions for First Nations economic development. The opportunity for the IEC is to coordinate institutional support for First Nations investment climates and promote policy changes to benefit First Nations. This support comes not only from the FMA institutions but from a wide array of Indigenous economic development organizations across Canada. IEC will give Indigenous thought leaders a home and foster networking and partnerships between like-minded First Nations. It will provide capacity support, tools, templates, and training to First Nations governments to support them to build investment climates and fully realize their economic potential. Mirroring the successes of First Nations such as Squamish and Westbank, IEC will empower community planning for economic development and investment.

The FMA founders sowed the seeds of this organization in 2003, when they originally conceived of a forum that would coordinate the work of the FMA First Nations and institutions to promote the development of their fiscal capacity and economies. Their intention was for FMA First Nations to build on the FMA platform to improve their investment climates and economies, and overcome barriers to development. The institutions were part of a new institutional framework for nation-building and an IEC would coordinate their efforts. Today, these institutions have critical mass.



The benefits of IEC will be both immediate and continuous, and will support the following objectives:

- **Bolster investment climates in First Nations jurisdictions**
- **Support First Nations capacity to fully realize their economic potential and identify comparative advantages**
- **Coordinate First Nations economic development tools and resources**
- **Develop market economies by empowering First Nations private sector growth**
- **Promote First Nations administrative capacity required to attract investment and maintain infrastructure systems**
- **Foster forum-based First Nations innovation and networking**
- **Advance policy solutions to support First Nations jurisdiction and economic prosperity**
- **Trade and investment**



The unprecedented success of the FMA institutions and the Lands Advisory Board demonstrates that First Nations innovations can offer better alternatives to the status quo...

The unprecedented success of the FMA institutions and the Lands Advisory Board demonstrates that First Nations innovations can offer better alternatives to the status quo, for the benefit of First Nations governments, other levels of government, and all Canadians. However, First Nations innovations require government support. Inaction is no longer an option, nor are minor changes to systemic issues. The Government of Canada should support and resource IEC.





! FIRST NATIONS ECONOMIES REQUIRE CAPACITY SUPPORT





THE IEC WILL SUPPORT THE CAPACITY OF FIRST NATIONS to move into a new institutional framework and rebuild their economies. There are success stories of First Nations that have broken through the barriers of *Indian Act* economics. Many First Nations have created improved investment climates and taken advantage of the opportunities at hand to build prosperous economies. Many more First Nations will require additional capacity, tools, and support to move from a colonial system to an Indigenous-led framework.

There is always a switching cost when moving from an old system to a new one – it requires fiscal and human resources capacity, and rules, processes, and training to support new ways of doing things. The right supports and institutions will empower more First Nations to switch to the new institutional framework.

There is enormous potential for First Nations to participate and thrive in regional, national, and international economies. Carol Anne Hilton challenges us to think beyond the status quo to imagine a \$100 billion Indigenous economy. Yet, as the Tulo Centre for Indigenous economics has stated, “the unique challenge is finding how First Nations peoples and communities effectively move from 150 years of colonial institutions to innovative First Nations institutions that support inclusive economic growth.”⁴⁸

It is not enough to have a new institutional framework that supports economic growth. For many First Nations, the cost of switching to new ways of doing things will be high, and will require time and effort. Not all First Nations begin their path to prosperity from the same starting point. Many First Nations will need more capacity support and more tools to unlock their economic potential.

There are success stories of First Nations that have broken through the barriers of *Indian Act* economics. Many First Nations have created improved investment climates and taken advantage of the opportunities at hand to build prosperous economies.



IEC Supports Capacity Development and Planning

Economic development drives social and health improvement, infrastructure development, housing, and living standards. Economic growth means more fiscal capacity for First Nations to determine their own futures and priorities, and support their unique cultural identities. Capacity support for economic development planning and practices would empower many First Nations' governments, businesses, and members to identify opportunities and create the best conditions for success.

At present, there are entities that support First Nations governments, government business enterprises, joint ventures, and private businesses. Indigenous organizations across the country provide vital capacity support and training programs, such as Cando and Aboriginal Financial Institutions (AFIs). These funding opportunities and programs are good, but can be sporadic, niche, and disparate. A longer-term, strategic, and cohesive end-to-end offering for planning and capacity growth would fill a large need. The IEC can fill this gap by coordinating the efforts of the FMA institutions and participating Indigenous economic development organizations.



As a forum for Indigenous economic development, the IEC will facilitate knowledge transfer between organizations and help identify members' needs and priorities. It will coordinate the delivery of training sessions, seminars, and templates for best practices in economic development opportunities for First Nations. This effort includes training at all levels: for elected Band officials, administration and management, staff, and community members. The IEC will also provide assistance, support, and best practices for First Nations to create their own community economic development plans.

Increased capacity, knowledge, and economic development planning will support First Nations to prioritize and foster economic growth in their communities. Increased capacity and planning will support the conditions for entrepreneurship and private-sector growth, while increased revenues for First Nations governments will further development of First Nations governance and self-determination. It will facilitate new infrastructure, and health and social programs that meet their own, specific needs. It will empower First Nations governments to better monitor, govern, and protect their land, and create and leverage market opportunities that have not yet been realized.

CENTRE OF EXCELLENCE

As First Nations' leadership, administration, staff, and members gain capacity and knowledge in economic development, the IEC can become a centre of excellence to further bolster and maintain capacity sustainably – despite change in elected leaders, administration and staff positions. Maintaining capacity despite change in government or administration is crucial to long-term economic viability of First Nations. Sustainability planning includes:

- Best practices, templates, and resources both for First Nation government owned businesses, and private businesses (i.e., board governance, the separation of business and politics, delegation of duties, day-to-day operations, etc.)
- Creation and implementation of policies and procedures for First Nation-owned businesses, and private businesses, and integration/synergy with existing First Nation laws and policies, and with other aspects of a Band's operations and legal representation
- Establishing a vision, mandate, and plan for a business that aligns with the social and cultural practices of the Nation





The implementation of best practices, along with increased capacity, will also facilitate opportunities for the development of networks or partnerships between different First Nations, or First Nations' businesses and other private businesses. These partnerships do not need to be governed by geographical factors or borders. There is growing appetite and opportunity for domestic and foreign companies to work with individual First Nations, or for First Nations to aggregate and participate in large-scale economic investments or projects beyond the bounds of their reserve, traditional territories, or Canada. Just as Membertou First Nation is "welcoming the world," by expanding their economic reach from national to international markets, First Nations with economic development capacity will increasingly realize these opportunities.⁴⁹

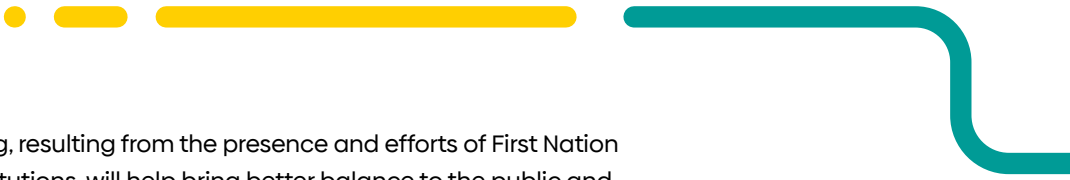
DEVELOPING A MARKET ECONOMY

A Role for the Private Sector

Indian Act economics has created a large discrepancy between the public and private sector balance when comparing an average First Nation community to an average Canadian community, and contributes greatly to the economic disparity between the two. In First Nations economies, innovation was frozen. Opportunity was frozen. *Indian Act* economics meant the risks and costs associated with conducting private business on many reserves became too high. As the Tulo Centre of Indigenous Economics states, "if the cost of doing business is too high, then people will do business elsewhere."⁵⁰

The result of these barriers is an extremely unbalanced economic environment where the public sector has become much bigger than the private sector. The underdeveloped private sector means limited employment opportunities for members in areas other than Band administration or government business enterprises. Specialists or individuals with higher levels of education will be forced to go elsewhere, sapping the nation's propensity towards economic innovation and diversification. This environment means a smaller potential tax base from which First Nations' governments could increase their own-source revenue, and an overreliance on insufficient public programming, staffing, and infrastructure.

The underdeveloped private sector also means that income for members does not cycle through the community. Instead of income triggering economic growth inside the community, nearly all spending happens in towns or businesses elsewhere. In "bungee economics," First Nations members do almost all of their spending off reserve.⁵¹



Capacity development and planning, resulting from the presence and efforts of First Nation leadership, the IEC, and the FMA institutions, will help bring better balance to the public and private sectors of First Nation economic environments. It will do this in several ways:

- **Greater capacity and planning will foster greater continuity. Nation-owned businesses will be far less prone to influence by First Nations politics or election cycles.**
- **Individual members will have more tools with which to build small- or medium-sized businesses, either on reserve or to fill niche needs around their region.**
- **A more stable economic environment will attract outside investment.**

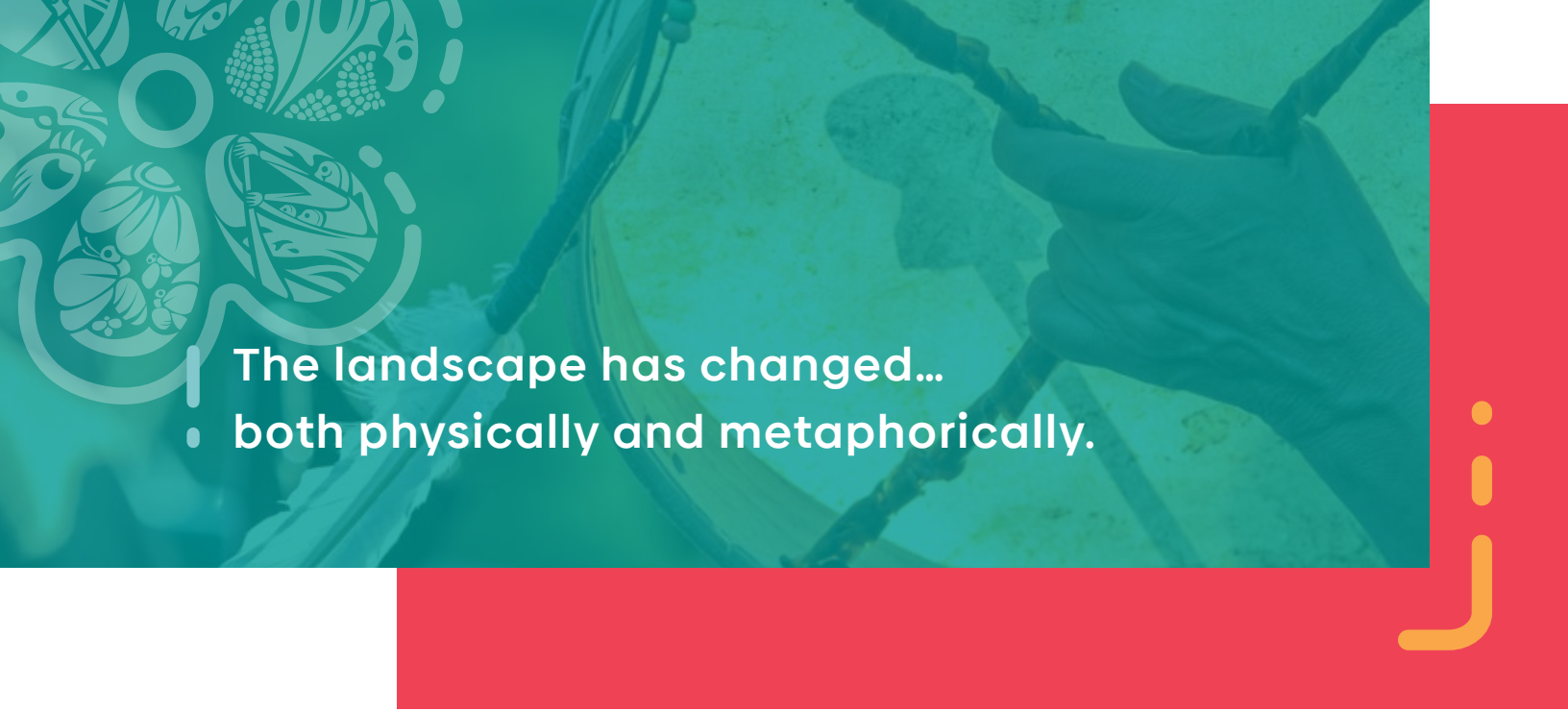
The Indigenous private sector is a wealth of untapped potential. According to Dawn Madahbee Leach, Chairperson of the National Indigenous Economic Development Board, the success rate of privately owned Indigenous businesses is even greater than the success rate of Indigenous government business enterprises. More private sector businesses will mean less “bungee economics” and a more efficient, integrated economy that creates jobs for more people.



Comparative Advantage to Competitive Advantage

Land has always been among First Nations’ comparative advantages, with Canada’s vast resources providing opportunities to develop robust trade economies, new technologies, new tools, new manufactured goods, and mobilize human capital. Pre-colonization, First Nation economic innovation created vibrant trading networks throughout the Americas. Trading posts, water travel routes, trails, the Chinook trade language, access to valuable minerals, timber, furs, and labour were all comparative advantages that First Nations had across the continent, and they leveraged them very successfully.

European settlers quickly took over those comparative advantages. Access to First Nations land was restricted through inequitable treaties, and First Nation networks, hubs, and the once-vibrant innovation economy became a distant memory. As the Canadian federal government settled more and more of the territory that would become the nation of Canada, it methodically stripped away First Nations’ comparative advantages and gave them to settlers. As a consequence of Canada’s efforts, First Nations had “neither the land, nor the resources, nor the jurisdiction and fiscal powers to support innovation.”⁵² The Department of Indian Affairs governed remaining First Nations’ lands, resources, and people via a bureaucratic monopoly, “whose objectives did not include institutional innovation to support economic growth. In sum, it represented a comprehensive destruction of the First Nation innovation economy.”⁵³

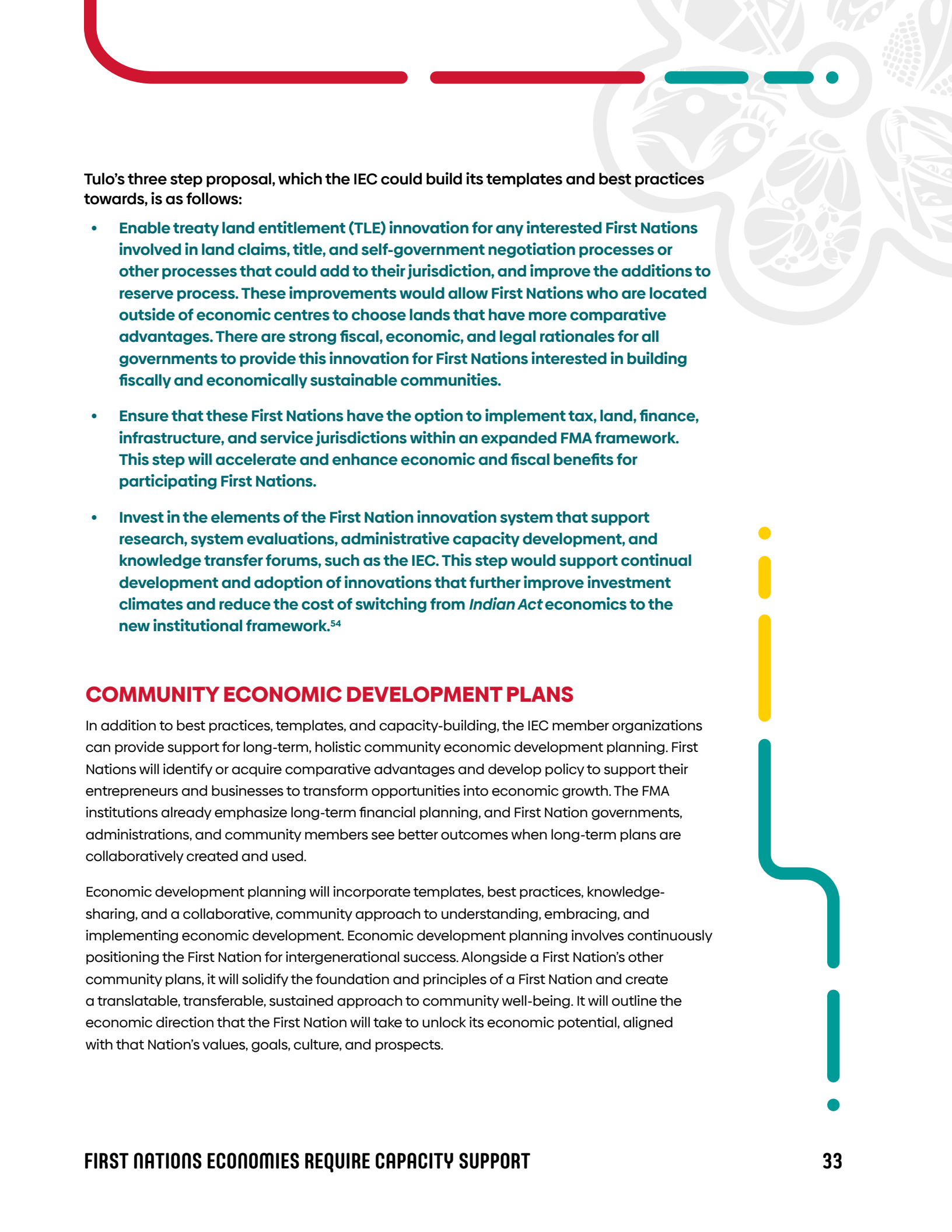


The landscape has changed... both physically and metaphorically.

First Nations' thought leaders have worked tirelessly over the subsequent years to allow First Nations to reassert their rights to support themselves through economic development. As a result of their efforts, Canadians have a growing appetite to redress these shameful practices. The landscape has changed, however, both physically and metaphorically. First Nations are dealing with 150 years of economic activity that happened without them, and are striving to create new and equitable pathways to move forward economically: a daunting task, but as some First Nations are showing today, not an impossible one.

The IEC will support First Nations to renew their economies by identifying and developing their comparative advantages. For many First Nations, a key comparative advantage lies in the land, while for those with fewer natural resources it may be labour, physical capital, or technology. The work of the Lands Advisory Board and the First Nations Land Management Resource Centre contributes to more First Nations authority over both their reserves and traditional territories, which supports mineral, lumber, commercial fishing rights, and other advantages. First Nations also have a large and growing potential labour force. As First Nations gain greater control over the fiscal and tax environment on their reserve lands, these factors combine to give First Nations leverage in developing more own-source revenue, strengthening their abilities to build healthy and wealthy communities.

In other cases, some First Nations have relatively few comparative advantages. In many cases their reserves may have been moved away from natural resources or centres of economic activity. In other scenarios, large proportions of their membership may have been displaced off reserve, or the extraction sector may have already harvested their natural resources. Regardless of their current position, First Nations can unlock their economic potential within a new institutional framework and the right institutional and capacity supports in place. The IEC, with its network of Indigenous economic development organizations, can support First Nations in this endeavor.



Tulo's three step proposal, which the IEC could build its templates and best practices towards, is as follows:

- **Enable treaty land entitlement (TLE) innovation for any interested First Nations involved in land claims, title, and self-government negotiation processes or other processes that could add to their jurisdiction, and improve the additions to reserve process. These improvements would allow First Nations who are located outside of economic centres to choose lands that have more comparative advantages. There are strong fiscal, economic, and legal rationales for all governments to provide this innovation for First Nations interested in building fiscally and economically sustainable communities.**
- **Ensure that these First Nations have the option to implement tax, land, finance, infrastructure, and service jurisdictions within an expanded FMA framework. This step will accelerate and enhance economic and fiscal benefits for participating First Nations.**
- **Invest in the elements of the First Nation innovation system that support research, system evaluations, administrative capacity development, and knowledge transfer forums, such as the IEC. This step would support continual development and adoption of innovations that further improve investment climates and reduce the cost of switching from *Indian Act* economics to the new institutional framework.⁵⁴**

COMMUNITY ECONOMIC DEVELOPMENT PLANS

In addition to best practices, templates, and capacity-building, the IEC member organizations can provide support for long-term, holistic community economic development planning. First Nations will identify or acquire comparative advantages and develop policy to support their entrepreneurs and businesses to transform opportunities into economic growth. The FMA institutions already emphasize long-term financial planning, and First Nation governments, administrations, and community members see better outcomes when long-term plans are collaboratively created and used.

Economic development planning will incorporate templates, best practices, knowledge-sharing, and a collaborative, community approach to understanding, embracing, and implementing economic development. Economic development planning involves continuously positioning the First Nation for intergenerational success. Alongside a First Nation's other community plans, it will solidify the foundation and principles of a First Nation and create a translatable, transferable, sustained approach to community well-being. It will outline the economic direction that the First Nation will take to unlock its economic potential, aligned with that Nation's values, goals, culture, and prospects.



The Squamish First Nation's Community Development Plan is a contemporary example of successful economic development planning. Some key components of that plan to be included with the IEC's best practices include:

- **Key cultural values to be instilled in economic development plans;**
- **The inherent value of the Nation's land: tied to culture, environmental stewardship, treaties (if applicable), jurisdiction, etc.;**
- **Unlocking the value of the land for development purposes, if desired;**
- **Turning comparative advantages into competitive advantages;**
- **Financial planning;**
- **Selecting best practices and approaches.**

A community economic development plan supports a First Nation to improve and leverage the investment climate, identify comparative advantages and turn them into competitive advantages, and incorporate a long-term training strategy for its citizens.



EDUCATIONAL PLAN

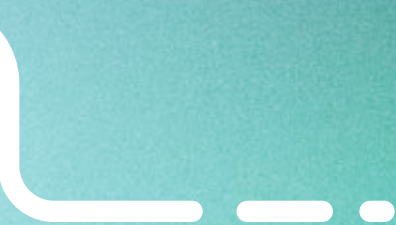
As part of the Community Economic Development Plan, the IEC can support First Nations in developing a long-term educational plan for community members. As capacity and systems progress and gain complexity, new positions in a myriad of fields will be required to sustain growth. These positions will include administrative roles, like senior management, human resources, communications, governance, and finance, as well as specialized roles, such as engineers, technicians, biologists, geologists, lawyers, and more. The IEC member organizations will support First Nations with best practices and options for aligning the human capital needs of the community with the educational offerings they provide. Furthermore, the IEC and participating First Nations and organizations could collaborate with interested academic institutions to co-develop curricula to address the growing Indigenous economy, which would be a new resource for personnel, capacity, and innovation. The greater number of new roles and specializations will also increase average income for First Nations' citizens, narrowing the income gap and leading to healthier and safer communities.

NEXT STEPS IN CAPACITY DEVELOPMENT

The next step to unlocking First Nations economic potential is to resource the institutions and organizations that support economic growth. This step includes resourcing IEC to develop a cooperative approach to First Nations economic development support. The FMA institutions and Indigenous economic development organizations will provide training, capacity development, and economic development planning support. The Government of Canada should resource steps through the Lands Advisory Board (LAB) and any other step, including Treaty Land Entitlement (TLE) or Addition to Reserve (ATR) processes that promote greater authority and control over reserve land and traditional territory for First Nations. Capacity, planning, and control will support First Nations in making the leap from non-participating to thriving in regional, national, and international economies.

Table 1: Functions of the IEC

FUNCTIONS	BENEFITS
Coordinates Indigenous Economic Development Organizations	• Coordinates support from the FMA institutions, and a wide array of Indigenous economic development organizations across Canada
Coordinates First Nation economic policy and framework design	• IEC will give Indigenous thought leaders a home and foster networking and partnerships between like-minded First Nations
Capacity Building	• The IEC will facilitate knowledge transfer between organizations and help identify members' needs and priorities • This effort includes training at all levels: for elected Band officials, administration and management, staff, and community members
Best practices, templates	• IEC will coordinate the delivery of training sessions, seminars, and templates for best practices in economic development opportunities for First Nations
Economic Development Planning	• IEC will help First Nations identify or acquire comparative advantages and develop policy to support their entrepreneurs and businesses to transform opportunities into economic growth
Centre of Excellence	• IEC can become a centre of excellence to further bolster and maintain capacity sustainably – despite change in elected leaders, administration and staff positions
Educational Plan	• The IEC member organizations will support First Nations with best practices and options for aligning the human capital needs of the community with the educational offerings they provide
Economic Cooperation and Trade	• IEC will work to open new markets for Indigenous Businesses • IEC will champion Indigenous economic interests at provincial/territorial, federal, and international levels



FIRST NATIONS ECONOMIES REQUIRE ACCESS TO MARKETS



Just as emerging First Nations create investment climates that attract investment, the Government of Canada could support Indigenous economic growth through public policy innovation. For 150 years, First Nations have endured economic segregation. Now, they are finding ways back into markets. Public policy that incentivizes or reduces cost of investment in Indigenous economies would accelerate this process and improve the Indigenous investment climate on a national scale.



Indigenous Procurement

INCENTIVIZING INVESTMENT THROUGH ESG STANDARDS

Environmental, social, and governance standards (ESG) are becoming a mainstream movement. Institutional and individual investors are seeking investments that provide positive returns for our society, and mandatory ESG disclosure is coming to Canada by 2024.⁵⁵ The FMA institutions are advocating for the ESG standards to contain Indigenous inclusion standards. Companies should disclose positive returns to Indigenous peoples as part of their reporting requirements. This inclusion would make procurement a comparative advantage for Indigenous communities across Canada. Key disclosures could include the impact on Indigenous communities and their traditional territories, including the impact on Indigenous economies.

With Indigenous inclusion a part of ESG standards, disclosure criteria would incentivize the private sector to collaborate with Indigenous communities and buy from Indigenous businesses to improve their ESG ratings. The Canadian private sector could integrate reconciliation action plans and Indigenous procurement targets into their corporate goals, increasing Indigenous exposure to broader markets.

Indigenous inclusion in ESG standards would also support First Nations to leverage their lands and resources as a competitive advantage, to the benefit of both Indigenous economies and the wider economy. All natural resource extraction in Canada occurs on the traditional territory of Indigenous nations. As Canadian natural resource extraction companies compete in global markets, Indigenous inclusion standards will provide new profit- and ethics-based motives for those companies to invest Indigenous – through Indigenous equity ownership of projects, partnerships, and suppliers. This inclusion would position Canadian companies in the natural resource sector as global ESG leaders, and would make both Canadian natural resources and Indigenous businesses more competitive. As ESG incentivizes investment in Indigenous businesses and communities, the role of verifying and raising awareness about Indigenous-owned businesses will be even more critical.

Indigenous inclusion in ESG standards will be mutually beneficial for both Indigenous and mainstream Canadian businesses. For Indigenous businesses, ESG standards will not only incentivize investment but new disclosure requirements will provide a useful screen for Indigenous communities and businesses to select partners. For mainstream private sector businesses, improved ESG ratings through Indigenous inclusion will provide access to capital at more favourable lending rates.



SUPPLY NATION CANADA

Since its inception in 1996, the federal Procurement Strategy for Aboriginal Business (PSAB) has improved procurement opportunities for the Indigenous business sector.⁵⁶ From 1996-2018, Indigenous businesses have been successful in over \$1.5 billion of contracts for the supply of goods and services to federal departments and agencies.⁵⁷ PSAB is a step in the right direction. However, Indigenous contracts represent less than 0.006% of federal purchases over the 25 years since the policy came into force.⁵⁸ Much more needs to be done to incentivize public and private sector procurement from Indigenous businesses.

PSAB maintains a national database of Indigenous businesses. However, Dawn Madahbee Leach has called for the creation of a more functional database of Indigenous businesses.⁵⁹ This database of verified Indigenous businesses across all sectors would facilitate public and private-sector procurement from Indigenous businesses. Supply Nation Australia is a successful model for connecting an Indigenous business sector to procurement opportunities in broader markets. By adopting a more rigorous verification process and improving the functionality of the database, a new entity, Supply Nation Canada, would introduce Indigenous businesses to the national economy and promote the goals of PSAB.

Although Supply Nation Canada would increase the effectiveness of PSAB, the real opportunity for this database is connecting Indigenous businesses to a broader public and private sectors that are increasingly interested in investing Indigenous. To name one example, Canada could benefit from partnerships with Indigenous businesses to export goods to the United States as minority-owned businesses.

- **Much more needs to be done to incentivize public**
- **and private sector procurement from**
- **Indigenous businesses**

High-Speed Broadband Internet

In a 2021 report, the Royal Bank of Canada identified the rapid expansion of high-speed broadband Internet as a critical tool for connecting Indigenous economies to broader markets.⁶⁰ As First Nations seek to renew their economies, the expansion of high-speed broadband to communities across Canada is one of the fastest ways to accelerate Indigenous skills development, labour, and access to markets. As Dawn Madahbee Leach points out, “without the right infrastructure in place, including high-quality broadband, entrepreneurship cannot thrive.”⁶¹

The FMA institutions support many of the recommendations in the RBC report, including the call to fulfill the federal commitment to provide high-speed Internet. This commitment includes broadband and related infrastructure reaching every Canadian by 2030, and needs to prioritize underserved Indigenous communities.⁶²

Economic Co-operation and Trade

Beyond the critical role of coordinating capacity support for the renewal of Indigenous economies, the IEC will also work to open new markets to Indigenous businesses. Similar to the role of the internationally focused Organization for Economic Co-operation and Development (OECD), the IEC will bring together policymakers, Indigenous governing bodies, Indigenous economic organizations and institutions, and the private sector. It will be a forum and knowledge hub to further Indigenous economic development and access to markets, networking, the exchange of ideas, and solutions for public policy challenges.

IEC will champion Indigenous economic interests and policy solutions at the provincial, federal, and international levels. IEC can inform domestic governments on Indigenous economic policy and identify new opportunities to promote Indigenous economic growth, remove barriers, and support investment climates. Internationally, the IEC can promote Indigenous economic priorities through forums such as the OECD

The IEC will support domestic and international trade missions to enhance Indigenous exposure to national and international markets, and spotlight opportunities for collaboration, investment, venture capital, and trade across borders.

Similar strategies are gaining traction in other parts of the world. In 2021, New Zealand initiated an Indigenous Peoples Economic and Trade Cooperation Agreement (IPETCA) through the Asia-Pacific Economic Cooperation (APEC), to empower the economies of Indigenous Peoples in the Asia Pacific region.⁶³



FIRST NATIONS ECONOMIES REQUIRE ACCESS TO CAPITAL



Indigenous Government businesses and Indigenous entrepreneurs do not have access to the financing markets that support the mainstream economy.

THE LACK OF CAPITAL RESTRICTS ECONOMIC DEVELOPMENT for First Nations communities. Indigenous Government businesses and Indigenous entrepreneurs do not have access to the financing markets that support the mainstream economy.⁶⁴ In 2017, a report by Waterstone Strategies estimated that First Nations- and Inuit-owned businesses only accessed 0.2% of available credit in Canada and could access 11x less market-based capital than most comparative Canadian firms.⁶⁵

Structural and systemic barriers have created this financing gap for Indigenous businesses and entrepreneurs on reserve.⁶⁶ Where property rights underpin the mainstream economy, restrictions on asset ownership under the *Indian Act* limit the ability of First Nations businesses and entrepreneurs to leverage on-reserve assets.

Lack of access to capital limits the ability of Indigenous businesses to scale up, and as a result, the vast majority of these businesses are microenterprises.⁶⁷ Limited capital also hinders the advancement of major projects and infrastructure development in many Indigenous jurisdictions. Although FNFA does critical work to provide access to capital, its primary role is lending to First Nations governments – not businesses or entrepreneurs. FNFA financing is limited to First Nations that achieve a Financial Performance certificate, which requires that key financial ratios be met. The Aboriginal Financial Institutions have mandates to work with Indigenous businesses and entrepreneurs, and have demonstrated success, but are undercapitalized and do not have the capacity to lend at the level that these businesses need to scale up.

These barriers limit First Nations' participation in the economy and perpetuate the economic gap. The FMA institutions are proposing new pathways to bridge the financing gap, which will provide the capital needed to advance First Nations economies.

Reasons for Lack of Capital



UNDERLYING CAUSE

The underlying cause for the lack of capital is the lack of property rights and the inability to own and use on-reserve assets for loan collateral. Banks usually require collateral when they provide financing. The reason for collateral is to reduce the risk to the bank if a default occurs. If the loan stops being repaid, the bank takes control of the collateral asset and sells it to recoup the costs of the unpaid loan. Due to the lack of property rights and legal protection for business assets, banks cannot use on-reserve infrastructure and land as collateral – this results in a shortfall of financing and investors for First Nations economic development. The lack of legal protection for business on-reserve is part of the *Indian Act* that was imposed on First Nations.

First Nations governments can advance property rights through the development of land codes on their communities' lands. The LAB and the First Nations Lands Management Resource Centre provide support to First Nations governments to develop their own land codes. This transfers significant land governance authority to local First Nations governments and provides the option for long-term leases – a form of property rights.⁶⁸

A First Nations government could grant long-term capital leases for specific parcels of land to businesses interested in developing economic development infrastructure, giving businesses an incentive to invest in First Nations economies. If the land codes and business property laws are advanced, this can attract investment through the mainstream commercial markets. As of April 2022, 194 First Nations governments have signed on to work with the Lands Advisory Board to advance a local land code.⁶⁹ Most other First Nations do not maintain land codes, and have limited property rights on-reserve. This limitation excludes many of these Nations from the mainstream commercial markets and stunts economic development in First Nations communities. There are also opportunities to advance the ability of on-reserve businesses to use their movable assets, such as inventory or equipment, as collateral for financing purposes. This could provide further assets that can be used to close the capital gap faced by Indigenous businesses.

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AFFECTED BUSINESSES

Individual entrepreneurs who own property off-reserve can utilize the equity in their personal homes to obtain capital for business opportunities. This could be accomplished through remortgaging a personal home or investment property or obtaining a line of credit with the property as collateral. For **Indigenous entrepreneurs** living on-reserve, this is often not an option as on-reserve properties are usually ineligible as collateral in Canada's banking system.⁷⁰ This puts on-reserve Indigenous entrepreneurs at a significant disadvantage when seeking out capital for business opportunities.

Indigenous Government businesses also face limited access to capital, particularly relating to business activities that require investment in on-reserve buildings and fixed infrastructure. Like the issue faced by on-reserve individual entrepreneurs, on-reserve buildings and fixed infrastructure often cannot be used as collateral in the mainstream banking system. The result is a lack of capital for in-community economic development infrastructure. Ironically, Indigenous Government businesses can more easily obtain financing by investing in fixed infrastructure off-reserve. The *Indian Act* effectively bars First Nations from the Canadian financial system. For many First Nations across Canada, the *Indian Act* is financial segregation.



In a similar manner, **non-Indigenous businesses** are discouraged from developing infrastructure on-reserve, such as resorts, department stores, or manufacturing centres. The reason is that non-Indigenous businesses face the same issue of collateral for on-reserve infrastructure and cannot obtain financing. All businesses, Indigenous or non-Indigenous, face significant barriers to advancing First Nations economic development.

The limited property rights and legal framework for business on-reserve result in a lack of capital, which restricts economic development in First Nations communities. The lack of capital hurts Indigenous entrepreneurs, Indigenous Government businesses, and non-Indigenous businesses that want to invest in and advance First Nations economies. Access to the mainstream capital markets is limited; however, some alternative financing options do currently exist. These options will be explored, along with their shortcomings.



Options for Alternative Capital and Current Gaps

ALTERNATIVE CAPITAL OPTIONS

Indigenous entrepreneurs and businesses are excluded from the mainstream capital markets in Canada, and alternative options are limited. Aside from direct cash investment – often unattractive to investors due to limited property rights for on-reserve business assets – alternative options include micro-lending and small business loans.

Alternative financing options available for Indigenous businesses and entrepreneurs include the following lenders:

- **A network of AFIs⁷¹ provide small business loans, often for amounts up to \$200,000.^{72 73}**
- **The FNFA provides long-term financing based on existing cash flows to First Nations governments, but not businesses or entrepreneurs.⁷⁴**
- **The Canadian Infrastructure Bank (CIB) provides loans for higher-value infrastructure development when the investment is between \$5,000,000 and \$100,000,000.⁷⁵**
- **The Business Development Bank of Canada provides loans for amounts up to \$350,000.**
- **Other organizations provide financing support for amounts less than \$350,000.**

Non-Indigenous businesses and investors that collaborate with First Nations entrepreneurs and communities are excluded from alternative financing options. This limitation undermines opportunities for economic growth and investment in on-reserve economic development infrastructure.



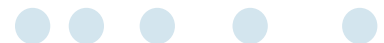
GAPS IN ALTERNATIVE FINANCING

The most critical financing gap is for medium- and large-value business loans to individual Indigenous entrepreneurs. Without these loans, on-reserve Indigenous entrepreneurs and businesses will not be able to grow and expand. While individuals who own a house off-reserve could gain financing through the equity in their personal home through mainstream financing options (e.g., commercial banks, home-equity lines of credit), on-reserve entrepreneurs and businesses face a market failure in access to capital.

Further financing options are available to First Nation-owned businesses, if a First Nations government is willing and able to obtain financing support on behalf of that business. This option, however, requires the First Nations community to shoulder the business risk. First Nations government revenue supports the cost of government and provision of services to First Nations members. If First Nations governments must assume business risk traditionally borne by entrepreneurs, venture capitalists, and commercial lenders – but without the corresponding expertise – it will jeopardize the government's fiscal capacity to function. The FNFA provides medium- and large-value loans to First Nations governments that are able and willing to obtain financing on behalf of their owned businesses. For amounts over \$5,000,000, First Nations governments can also pursue financing through the Canadian Infrastructure Bank. Aside from obtaining financing through the First Nations government, the few options for financing limits the ability of First Nation-owned businesses to invest in economic opportunities on reserve. This limitation is especially true for on-reserve buildings and fixed infrastructure that often cannot be used as collateral for business loans.

The limited legal framework for business on-reserve effectively strangles the free-market flow of capital into First Nations communities. The financing gap impedes First Nations economic development and limits the development of critical infrastructure. The lack of free-market financing perpetuates the Indigenous socioeconomic gap. The lack of secure property rights, one of the cornerstones of the capitalist system, has led to the exclusion of First Nations from the market economy.

The limited legal framework for business on-reserve effectively strangles the free-market flow of capital into First Nations communities. The financing gap impedes First Nations economic development and limits the development of critical infrastructure.



Solution – Creation of the Indigenous Development Bank

The solution to the lack of capital is the creation of the Indigenous Development Bank (IDB). The IDB will be well positioned to address the unique capital needs for Indigenous economic development.

Public development banks play an important role when there are limitations in mainstream capital markets⁷⁶ that result in depriving worthy businesses of financing. Limited capital and financing stifles growth and results in stagnated economies. The Asian Development Bank (ADB) is a prime example of the positive effect that development banks can have. It has financed and enabled significant economic growth throughout the Asian and Pacific region.⁷⁷ Since the ADB's founding in 1966, numerous Asian countries climbed out of extreme poverty and advanced their economies at a rapid pace – a clear demonstration that development banks are an important player in global economic reconciliation.



The FMA institutions are not the only organizations to support this solution. The National Indigenous Economic Strategy identifies the creation of an Indigenous development bank to address the longstanding issue of access to capital. Similarly, the Royal Bank of Canada identified the need for significant investment in new capital channels and access to venture capital as main recommendations in its 2021 report *Building Bandwidth*.⁷⁸

Just as the Asian Development Bank transformed economies in Asia, the Indigenous Development Bank will reshape the economic landscape for Canada's Indigenous population. The IDB will be designed to address the unique property framework and economic needs of First Nations communities and will avoid the bureaucratic process that limits First Nations' access to the commercial banking sector. Access to capital is the missing key that will unlock the true potential of First Nations economies – the Indigenous Development Bank is the organization to make this a reality.

The IDB can provide four financing products to meet these needs:

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 (NACCA) and its network of AFIs**
4. **High-value loans for commercially viable infrastructure and major projects, backed by federal/provincial government loan guarantees**

The IDB will be a client-driven organization that will create innovative financing products to meet the needs of businesses (both Indigenous and non-Indigenous) that are building up on-reserve economic development infrastructure. These needs demand tailored financial products to bridge the capital gap faced by Canada's Indigenous communities. Capital products that can also be considered in the future include equity loans, select commercial loan guarantees, and venture capital. The IDB will actively consult with Indigenous governments and businesses to determine the financial and capital products that will advance Indigenous economies.

Since the AFIs provide small-value business loans, with the IDB focusing on medium- and high-value loans amounts, the IDB and AFIs will complement each other to meet the capital needs of Indigenous economies. IDB will provide loans based on the merit of the business plans put forward during the loan application process and will allocate a risk-based interest rate. As the IDB grows, it will provide higher-value loan amounts based on capital availability. As the IDB grows and obtains greater access to capital, the IDB can scale up to higher value loans for both Indigenous Government and private

businesses that advance business opportunities on reserve lands. These can include a host of business ventures, including major projects to advance First Nations economies.

Advancing major projects within First Nations jurisdictions has the potential to grow Indigenous economies, as well as to meet the strategic goals of other levels of government. These goals could include resource development or strengthening local supply chains to name a few. The federal or provincial governments could advance major projects and First Nations businesses' access to capital by providing loan guarantees on major projects. The IDB could lead in providing due diligence on these types of projects, which would reduce the risk associated with these loan guarantees. The IDB could also take the lead in advancing loan guarantee agreements, which would ensure Indigenous leadership in the establishment and terms of these guarantees.

Major projects will also require capacity support. The First Nations Major Projects Coalition (FNMPC) has a mandate to support First Nations with the tools and capacity to make informed business decisions on major projects.



The IDB could work in partnership with a consortium of commercial banks to finance projects that require high value loans – which would be enabled by a federal/provincial loan guarantee.

The IDB could work in partnership with a consortium of commercial banks to finance projects that require high value loans – which would be enabled by a federal/provincial loan guarantee. This model would allow loans to be scaled up to amounts that may be beyond the IDB’s initial capital availability. The IDB could take the lead as these high-value loans are established and bring in partner commercial banks to meet the capital needs. The federal/provincial loan guarantee would provide the assurance required by the commercial banks and unlock the needed capital to turn Indigenous major projects and infrastructure development into reality. Indigenous Government businesses could turn to the IDB to meet their major projects financing needs, as well as simplify the process to obtain the financing to advance their economies.

The IDB should be established as a development bank under federal legislation. The IDB will be dedicated to meeting the financing needs of Indigenous entrepreneurs and business owners, Indigenous Government businesses, and non-Indigenous

businesses seeking to develop on-reserve economic development infrastructure and major projects. The IDB should be governed by an independent board of directors, with a majority of the board members being Indigenous. Representation on the board can be sought from all regions across Canada.

INVESTMENT IN THE INDIGENOUS DEVELOPMENT BANK

The Government of Canada has expressed its commitment to Indigenous economic reconciliation. The federal government can act on this commitment by establishing and resourcing the IDB, which will provide the working capital necessary to provide Indigenous business loans and fund on-reserve economic development infrastructure. We also request a financial commitment from the provincial and territorial governments in Canada to help address Indigenous business financing needs and bridge the socioeconomic gap. Upfront capital investment in the IDB will be needed, as well as an ongoing commitment of support.

The IDB will utilize the ESG reporting framework to measure, in an objective manner, the impact of the projects that it finances. Key disclosures in ESG standards could include the impact on Indigenous communities and their traditional territories. Investors in the IDB will have confidence that their capital is being used to contribute to lasting economic reconciliation with Canada's First Nations.

As ESG advances on an international scale, investors will seek out organizations with a strong record on ESG principles. This, in turn, will reduce the cost of attracting capital for the IDB – both from investors and for financing. Potential investors include public and private pension funds, ethical mutual funds and exchange-traded funds, and private investors. As the IDB grows and requires further capital, it could seek out capital through bond issuances. The federal government of Canada could support the work of the IDB by providing federal guarantees to these bond issuances. Both the federal loan guarantee and the public market's desire to support ESG investments will result in lower cost bond issuances. These cost savings could then be passed on as lower interest rates on the loans provided to Indigenous businesses.



INDIGENOUS DEVELOPMENT BANK – A GLOBAL MODEL

As Canada seeks to implement UNDRIP, the Canadian Indigenous Development Bank could position Canada to provide global leadership on UNDRIP. The financing gap is not unique to the Indigenous peoples of Canada. It is a problem that Indigenous peoples around the world experience as they seek to rebuild their Nations from a destructive colonial past.

The World Bank has recognized these barriers and has started the work of including Indigenous peoples in the Bank's analytical work, Country Partnership Frameworks, national policy dialogues, and public investments and trust funds.⁷⁹

Indigenous institutions within Canada are already far ahead of their international counterparts. If Canada can demonstrate the efficacy of the IDB, this financing model could soon become a global solution for



Indigenous peoples across the world. As the World Bank begins to incorporate Indigenous development into its scope, the Canadian model could provide a critical financing solution for the Indigenous developing world through the creation of a World Indigenous Development Bank in collaboration with the World Bank Group.

A World Indigenous Development Bank (WIDB) could be capitalized in an environment that utilizes an ESG reporting framework that is guided by the principles of UNDRIP. All projects financed by the WIDB would maintain ESG thresholds that demonstrate the advancement of Indigenous economic reconciliation and societal benefit. As a preferred global ESG investment, the WIDB would attract investors that want to see their capital produce meaningful and lasting economic progress for our world's Indigenous peoples – in a manner that upholds their cultural values. By incorporating the principles of UNDRIP within the ESG reporting framework, investors will have a credible way to know that their investment is contributing to global Indigenous economic reconciliation, a more equitable society, and a sustainable future for all.

Why should this Canadian Indigenous Development Bank model be expanded to the global stage? This financing model establishes a new Indigenous economic design – one that will attract both public and private capital to advance the Indigenous economy with a free-market design. The model encourages economic and business partnerships with local Indigenous communities through an improved investment climate, while ensuring that economic development is aligned with the cultural values of local Indigenous communities. Once the concept is proven in Canada, it could become the leading solution to closing the Indigenous economic gap domestically and throughout the world.

BRIDGING THE CAPITAL GAP – SYNOPSIS

The capital gap disadvantages Indigenous businesses and hinders First Nations economic development. The capital gap is a direct consequence of the failed policies of the *Indian Act*, which has cut off First Nations from the mainstream Canadian economy. While some alternative financing options exist, they are not sufficient.

The solution to bridge this capital gap is the establishment of the IDB. The financing options provided by the IDB will unlock the true potential of First Nations economies and are essential for the RoadMap to economic reconciliation. Table 2 provides a synopsis of the topics covered in this section – and is the template to bridge the capital gap for First Nations economic development.

The capital gap is a direct consequence of the failed policies of the *Indian Act*, which has cut off First Nations from the mainstream Canadian economy.

Table 2: Unlocking First Nations Economies with the Indigenous Development Bank

	Indigenous entrepreneurs	Indigenous Government businesses	Non-Indigenous businesses
Business Description	Indigenous people who own or operate businesses	Business ventures of Indigenous Governments, and businesses owned by these Governments	All businesses not owned by Indigenous people or First Nations governments
Lack of Capital	Limited property rights and legal framework for business discourages investment for on-reserve economic development infrastructure and businesses – this is a product of the failed policies of the <i>Indian Act</i>		
Existing Alternative Financing Options	- Small-value business loans from the network of AFIs and Indigenous business loans from BDC - Small-value general business loans are also available from Futurepreneur and Community Futures	- Small-value business loans from the network of AFIs and Indigenous business loans from BDC - FNFA provides loans to First Nations governments with secured revenue streams – Nation governments can apply these funds for their owned businesses. Infrastructure loans are also available through the Canadian Infrastructure Bank	Excluded from the alternative financing options
Gaps in Alternative Financing	- Loans to finance on-reserve economic development infrastructure - Medium- and large-value general business loans		Fully excluded from the alternative financing options – thus limiting private capital for First Nations economies
Indigenous Development Bank (IDB) Solutions	- Economic development infrastructure loans to develop on-reserve business infrastructure: available to all business types - Medium- and large-value general business loans: available to Indigenous entrepreneurs and Indigenous Government businesses	- Capital injection loans: available to NACCA and its network of AFIs – this will increase access to small-value business loans for Indigenous businesses - High-value loans for commercially viable infrastructure and major projects, backed by a federal/provincial government loan guarantee: available to all business types	
Unlocking First Nations Economies	- Develop on-reserve infrastructure that enables profitable businesses and economic development - Provide Indigenous businesses with the same financing opportunities as their non-Indigenous counterparts – enabling new business start-ups and the expansion of already successful Indigenous businesses		- Encourage private investment and capital flows to unleash the full potential of First Nations economies, bridge the capital gap, and enable economic reconciliation - Provides a model for a World Indigenous Development Bank and international leadership on UNDRIP



CONCLUSION



With the right support,
First Nations innovation
will unlock First Nations
prosperity.





ALTHOUGH INDIAN ACT ECONOMICS CONTINUES to limit progress for many First Nations today, change is possible, and the potential of the Indigenous economy is vast. For many First Nations across Canada now living under the *Indian Act*, the practical effect of this system has amounted to financial segregation and an all-too-familiar status quo. It is time to start thinking beyond the limitations of the *Indian Act*.

With the right support, First Nations innovation will unlock First Nations prosperity. First Nations thought leaders are creating a marketplace of ideas and a competitive process of innovation. Innovations like the *Framework Agreement* and the FMA give First Nations governments the option to move beyond the limitations of the *Indian Act*. In this marketplace of ideas, early adopters test the innovations. When they achieve good results, others become interested in moving from old ways of doing things towards the new. Continual improvement and institutional support increase the pace and ease of change as we move from old systems to new.



Innovations like the Framework Agreement and the FMA give First Nations governments the option to move beyond the limitations of the *Indian Act*.



There is a new institutional framework to support economic growth. This optional and Indigenous-led framework is yielding stunning results. Most First Nations governments across Canada are now choosing this framework, and our data shows that the new framework supports far greater economic success than the old colonial system.

Yet it can be a challenge for many capacity-constrained First Nations governments to switch from an old system to a new one. First Nations still require more support and more optionality as they build economies and occupy their jurisdictions. The concepts contained within this chapter pave the way for continuous improvement of the framework and greater support to the First Nations who wish to be a part of it.

The FMA institutions and their partners will build on the progress of the new institutional framework by coordinating their efforts. Each organization is a component of the whole. By working together, they can continuously improve the framework and introduce innovative ideas, new legislation, and new supports to First Nations governments. This will be accomplished through a coordination council, the IEC, which will continuously advance this new framework in partnership with all stakeholders and will empower participating First Nations to recognize and develop their economic potential. The Government of Canada should support and resource the IEC for the benefit of First Nations and all Canadians.

Finally, we must recognize and address the barriers to financing for Indigenous entrepreneurs and businesses that are inherent in the *Indian Act* system. The lack of available financing for worthy businesses is a market failure that has limited Indigenous economies across Canada.

First Nations still require more support and more optionality as they build economies and occupy their jurisdictions.



Lessons learned in the world of international development demonstrate that public development banks can play a pivotal role when there are limitations in mainstream capital markets. Canada can take a global leadership role in the implementation of UNDRIP through the creation of the first Indigenous Development Bank. Just as the Asian Development Bank transformed economies in Asia, the Indigenous Development Bank can reshape the economic landscape for Canada's Indigenous population and provide a model for Indigenous nations around the world.

The Government of Canada has adopted UNDRIP and is planning for its implementation. With its future prosperity dependent on the success of the Indigenous economy, Canada could pursue real, systemic change for the benefit of all Canadians.

***Indian Act* economics has failed. It is time to empower Indigenous-led solutions. It is time to support the hundreds of First Nations who wish to move beyond the constraints of the *Indian Act* into a new institutional framework.**

It is time to unlock the First Nations economy.



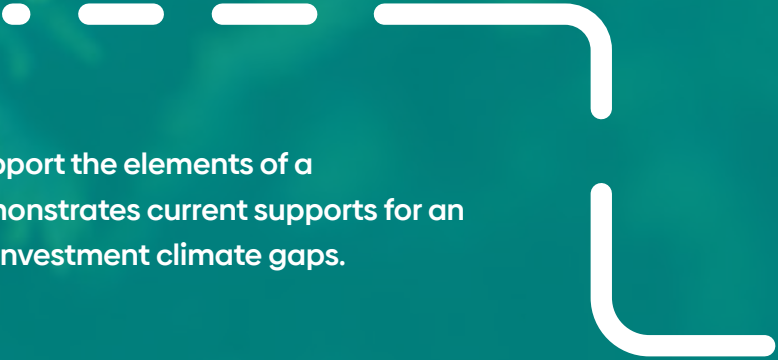
CONCLUSION





APPENDIX

How First Nations Will Lead the Way



THE FMA INSTITUTIONS AND THEIR PARTNERS support the elements of a competitive investment climate. Table 3 demonstrates current supports for an investment climate and calls to action to fill investment climate gaps.

Table 3: Fostering a Competitive Investment Climate for First Nations

Requirements for a Competitive Investment Climate	Existing Supports	Calls to Action to Fill the Current Investment Climate Gap
1. Responsive leadership, governance, & administration	FMB: capacity support and certification for the financial management systems of First Nations governments, strengthening their financial and governance abilities	Creation of an IEC, which will: • Provide economic development capacity training • Assist in local economic development community planning • Provide governance supports to First Nations governments in advancing economic development • Provide thought leadership with evidence-based economic and fiscal policy research – founded in data and statistical analysis • Facilitate collaboration between the FMA Institutions, LAB and FNLMRC, and other Indigenous organizations – promoting a shared strategy and vision to advance First Nations economies
2. Secure property rights	LAB and FNLMRC: land code development, enabling private property rights	• Greater resources and stable funding for LAB and FNLMRC to advance land codes and capacity support for First Nations • Settlement of land and environmental liabilities over reserve lands – is a prerequisite to advance land codes
3. Legal framework to support markets	LAB and FNLMRC: land code development, setting the groundwork for business legal rights	• Creation of an IEC: advance and support legal frameworks to foster an investment climate for First Nations • Expanded jurisdiction for Indigenous controlled enforcement of First Nations laws (e.g., land codes, property tax laws, financial administration laws)
4. Fiscal relationship for revenues and services	• FNTC: property and local tax revenue laws to strengthen own-source revenue capabilities • LAB and FNLMRC: land codes that enable local land and lease revenues	• Additional resources for LAB, FNLMRC, and FNTC to support First Nations and develop their capacity to administer expanded jurisdiction and taxation • Expanded jurisdiction for First Nations governments over their own lands to collect taxation and royalty revenues – enabling greater independence and self-determination

(Table Continued)

Requirements for a Competitive Investment Climate	Existing Supports	Calls to Action to Fill the Current Investment Climate Gap
5. Competitive infrastructure and financing	• FNMPCC: advances opportunities for First Nations to gain ownership in large-scale projects and provides capacity supports to empower Nations to pursue their development goals • FNFA: financing for First Nations governments using secured revenue sources, enabling independent infrastructure planning and decision making	Creation of FNII, which will: • Provide best practices in planning, procurement, and delivery of infrastructure projects • Develop capacity and the technical skills necessary for First Nations to manage and maintain their own community's infrastructure • Support due diligence on monies invested in infrastructure Creation of the IDB, which will fill the financing gaps that exist for the Indigenous economy. The IDB will offer the following financial products: • Economic development infrastructure loans to develop on-reserve business infrastructure - available to all businesses wanting to invest in First Nations communities • General business loans to Indigenous entrepreneurs and Indigenous Government businesses • Capital injection loans to NACCA and its network of AFIs
Abbreviations • LAB – Lands Advisory Board • FNLMRC – First Nations Land Management Resource Centre • FMB – First Nations Financial Management Board • FNFA – First Nations Finance Authority • FNTC – First Nations Tax Commission • FMA – <i>First Nations Fiscal Management Act</i> • FNMPCC – First Nations Major Projects Coalition • FNII – First Nations Infrastructure Institute • IDB – Indigenous Development Bank • NACCA – National Aboriginal Capital Corporations Association • AFI – Aboriginal Financial Institutions • IEC – Indigenous Economic Council		



Proposed financial products for an Indigenous Development Bank

FINANCING GAPS FOR INDIGENOUS ECONOMIC DEVELOPMENT

There is a financing gap for individual Indigenous entrepreneurs for medium and large value business loans. Financing is available through the AFI networks for amounts roughly up to \$200,000 (varies by region) but is limited for amounts over this. For higher amounts, the key financing option is from BDC, which offers an Indigenous Entrepreneur Loan program for amounts up to \$350,000. The few financing options severely limits the ability for on-reserve Indigenous entrepreneurs to grow and expand their businesses. While individuals who own a house off-reserve could gain financing through the equity in their personal home via the mainstream financing options (e.g., commercial banks, home-equity lines of credit), this option is not available to many on-reserve entrepreneurs.

There is a financing gap for Indigenous Government businesses for medium and large value loans, similar to individual Indigenous entrepreneurs. These businesses do have further financing options, if a First Nation government is willing and able to obtain financing support for their owned business. Note that financing through First Nations Finance Authority for higher amounts would be available through First Nation governments that are able and willing to obtain financing on behalf of their owned businesses. For amounts over \$5,000,000, loans are available through the Canadian Infrastructure Bank. The few options for financing limits the ability of Indigenous Government businesses to invest in economic opportunities, especially for on-reserve buildings and fixed infrastructure that often cannot be used as collateral for business loans.

Non-Indigenous businesses that wish to invest in on-reserve economic development infrastructure are excluded from these financing options altogether. This prevents a significant opportunity for investment and cuts off First Nations communities from the mainstream business environment. The limited legal framework for business on-reserve effectively chokes off the free market flow of capital into First Nations communities.

Table 4 visualizes where the financing gap currently exists. The key gaps include:

- **Medium and large value business loans for:**
 - Indigenous entrepreneurs
 - Indigenous Government businesses without Nation-backed financing
- **Loans of all values for non-Indigenous businesses**
- **Loans to finance on-reserve economic development infrastructure, due largely from the inability to use on-reserve assets and property as loan collateral**
 - this gap exists for all business types

Table 4: Financing Gaps for Indigenous Economic Development

Affected Businesses	Financing Source	Small Value Loans	Medium Value Loans		Large Value Loans		
		0-200,000	200,000 - 350,000	350,000 - 1,000,000	1,000,000 - 5,000,000	5,000,000 - 10,000,000	10,000,000 - 100,000,000
Indigenous entrepreneurs	AFIs			Gap	Gap		
	Futurpreneur						
	Com. Futures						
	BDC						
Indigenous Government businesses (without Nation financing)	AFIs			Gap	Gap		
	BDC						
Indigenous Government businesses (with Nation financing)	AFIs						
	BDC						
	FNFA						
	CIB						
Non-Indigenous businesses	Fully excluded	Gap					

Financing Available	Financing Gap
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ON-RESERVE ECONOMIC DEVELOPMENT INFRASTRUCTURE LOANS

The IDB will provide economic development infrastructure loans to Indigenous entrepreneurs, Indigenous Government businesses, and non-Indigenous businesses seeking to develop business-owned infrastructure on reserve. In contrast to public infrastructure assets, this infrastructure includes grocery stores, department stores, resorts, golf courses, casinos, hotels, or manufacturing centres. All of these customer segments face a similar issue when trying to develop on-reserve infrastructure – these assets often cannot be pledged as collateral and puts undue risk onto any bank that provides financing. This risk must be addressed for the IDB to succeed.

This difficulty can be overcome if First Nations advance land codes within their jurisdictions. When land codes are developed in the First Nations jurisdiction, the business would have property rights over the financed infrastructure and relating property (e.g., long-term property leases) – allowing the financed infrastructure to be resold or used as collateral for financing. In the event of a default, the IDB could take ownership of the financed infrastructure and can sell the relating property and infrastructure to recoup the remaining loan balance (similar process to commercial banks). This process uses a free-market mechanism to encourage investment in First Nations businesses, and does not require the First Nations government to assume any risk in the case of a loan default.

We now explore the other financial products that will advance First Nations economic development.



GENERAL BUSINESS LOANS TO INDIGENOUS ENTREPRENEURS AND INDIGENOUS GOVERNMENT BUSINESSES

We have discussed how on-reserve Indigenous entrepreneurs are excluded from the mainstream financial markets, often because they do not have property that can be used to obtain a business line of credit. Indigenous Government businesses often face similar limitations because their fixed assets are located on-reserve. To address this, the IDB will provide medium and large value general business loans to Indigenous entrepreneurs and Indigenous Government businesses (e.g., amounts over \$200,000). Loans below this amount could be pursued from the network of Aboriginal Financial Institutions (AFIs). Note that these general business loans would focus on loans that are not directly associated with on-reserve economic development infrastructure. For economic development infrastructure loans, refer to the previous section.

The risk associated with the general business loans would be evaluated based on the loan application and would closely consider the types of assets that could be held as collateral as well as the strength of the business case. The interest rate associated with these loans would be determined after conducting a risk assessment.

CAPITALIZATION OF NACCA AND THE AFI NETWORK

NACCA and its network of AFIs provide financing for smaller loan amounts. This financing service, as well as the business capacity services, are essential to closing the economic gap between Canada's Indigenous and non-Indigenous populations. The AFIs are well positioned to continue providing these financing and business support services.

The IDB will regularly consult with NACCA and its network of AFIs to ensure that they have adequate capital to serve its client base. If capital shortfalls are noted, the IDB will provide an economic development loan to NACCA to close capital shortfalls. This loan amount will be adjusted based on the ongoing capital needs of NACCA and the AFIs. This directive is supported by a 2017 report from the National Aboriginal Economic Development Board, which recommended that AFIs be provided with additional capital resources to meet the financing needs of Indigenous businesses.⁸⁰



HIGH-VALUE LOANS FOR COMMERCIALY VIALE INFRASTRUCTURE AND MAJOR PROJECTS

This new financing product would provide high-value loans for major projects and commercially viable infrastructure investments. These loans could be guaranteed by the federal or provincial governments and would be available to indigenous government and private businesses (or a combination of the two). The IDB could take the lead in establishing loan guarantee agreements with the federal and provincial governments, and provide advisory services to indigenous businesses to support them in financing major projects. This would ensure indigenous leadership in the terms and establishment of the loan guarantees.

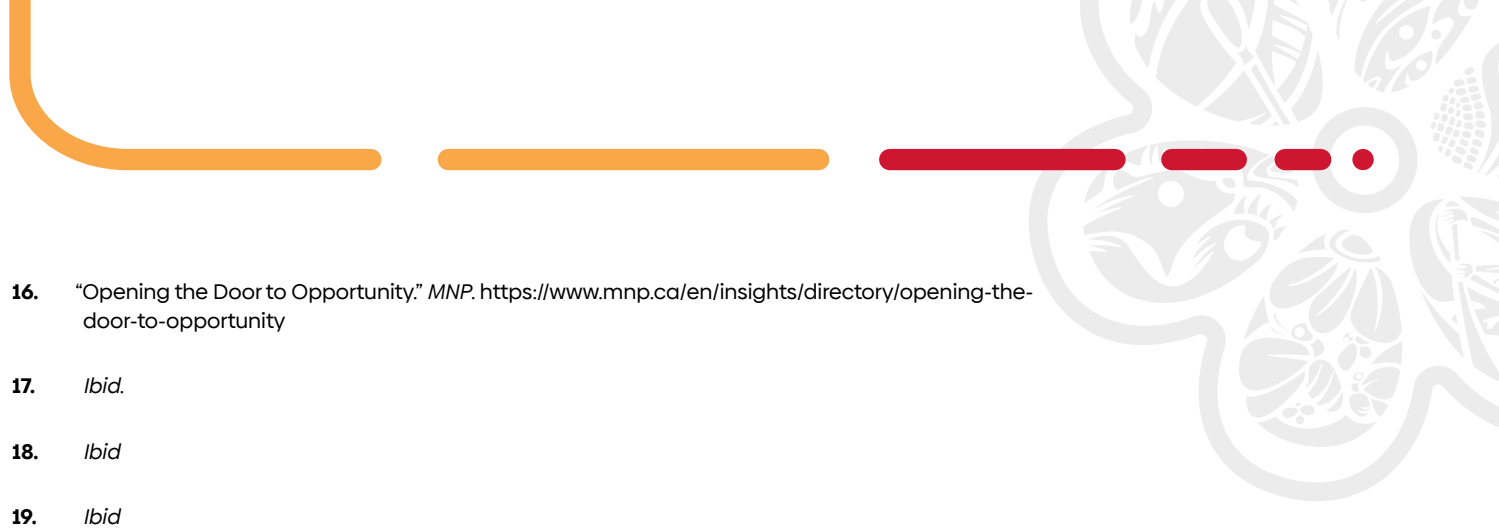


The IDB would work in partnership with a consortium of commercial banks to finance projects that require high value loans – which would be enabled by a federal/provincial loan guarantee. This model would allow loans to be scaled up to amounts that may be beyond the IDB's initial capital availability. The IDB could take the lead as these high-value loans are established and bring in partner commercial banks to meet the capital needs when high-value projects. The federal/provincial loan guarantee would provide the assurance required by the commercial banks and unlock the needed capital to turn Indigenous major projects and infrastructure development into a reality. First Nations businesses could turn to the IDB to meet their major projects financing needs, as well as simplify the process to obtain the financing to advance their economies.

Advancing major projects within First Nations jurisdictions has the potential to grow Indigenous economies, as well as to meet the strategic goals of other levels of government. These goals could include resource development or strengthening local supply chains to name a few. The federal or provincial governments could advance major projects and First Nations businesses' access to capital by providing loan guarantees on major projects. The IDB could lead in providing due diligence on these types of projects, which would reduce the risk associated with these loan guarantees.

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