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Levelling the playing field

First Nations and Financial Empowerment

Discussion Paper
April 2015





The Public Policy Forum is an independent, not-for-profit organization dedicated to improving the quality of government in Canada through enhanced dialogue among the public, private and voluntary sectors. The Forum's members, drawn from business, federal, provincial and territorial governments, the voluntary sector and organized labour, share a belief that an efficient and effective public service is important in ensuring Canada's competitiveness abroad and quality of life at home.

Established in 1987, the Forum has earned a reputation as a trusted, nonpartisan facilitator, capable of bringing together a wide range of stakeholders in productive dialogue. Its research program provides a neutral base to inform collective decision making. By promoting information sharing and greater links between governments and other sectors, the Forum helps ensure public policy in our country is dynamic, coordinated and responsive to future challenges and opportunities.

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Overview

The Public Policy Forum has organized a series of roundtables to discuss strategies to better connect First Nations, Metis and Inuit businesses and communities with affordable financing and new sources of funding. Our goal is to develop a series of concrete recommendations to help inform a comprehensive strategy that enhances First Nations, Metis and Inuit access to capital. The first roundtable was held in Toronto, with the focus of discussions being access to large-scale commercial financing. Our second roundtable was held in Vancouver and considered where capital can be better leveraged for First Nations, Metis and Inuit communities.

To provide context for the final roundtable in Ottawa, this discussion paper summarizes the results of a recent National Aboriginal Economic Development Board (NAEDB) report.¹ Chaired by Chief Clarence Louie of the Osoyoos Indian Band, and made up of First Nations, Inuit and Métis business and community leaders from all regions of Canada, the NAEDB released *Enhancing Aboriginal Financial Readiness for Major Resource Development Opportunities* in 2015. This publication highlights current challenges impeding natural resource revenue management and proposes several ways to empower First Nations, Metis and Inuit communities to mobilize revenue for meaningful change.

Current Challenges

Indigenous communities are experiencing an unprecedented number of opportunities to participate in economic development, yet may face structural and cultural barriers to full participation. First Nations, Metis and Inuit communities experience a persistent and systemic gap in numeracy and literacy skills, while the policy framework that governs Indigenous financing may also create disincentives for community participation.

Capacity

As many major resource development projects are happening in remote areas of the country, communities most affected are often also the least equipped to manage these ventures. First Nations, Metis and Inuit community leaders entrusted with development opportunities want to ensure that any decision made is in the best long-term interest of the community. Leaders wish to protect their land while still negotiating sound financial projects that demonstrate viable long-term return, but they may not have the skills to do so. Building community capacity will involve the following four pillars:

- 1) Governance capacity: leadership, transparency, ensuring business management and governance systems
- 2) Technical and legal advisors: negotiating expertise and familiarity with regulations
- 3) Financial expertise and capital sourcing: identifying and attracting capital and long-term management of earnings
- 4) Economic development planning and human resources: job creation, procurement and business development

¹ National Aboriginal Economic Development Board. *Enhancing Aboriginal Financial Readiness for Major Resource Development Opportunities*, January 2015.

Access to Information and Expertise

First Nations, Metis and Inuit communities can be at a disadvantage when negotiating major development projects as they have differing experiences and education. Community service providers are often preoccupied as they are responsible for a range of services alongside economic development. Resource development projects present diverse and complex variables further complicated by regulation and legislation. Indigenous communities may not have the information or expertise to assess the potential benefits or consequences of proposed projects. Community leaders require early consultation with ample time and assistance in navigating the system. Currently, no central, comprehensive source of information regarding resource development exists.

First Nations Fiscal Management Act

The *First Nations Fiscal Management Act* is opt-in legislation giving access to capital and contributory supports for First Nations, Metis and Inuit communities seeking participation in economic development activities. Under this legislation, communities must be certified by the Financial Management Board (FMB) in order to access capital by the First Nations Finance Authority. The FMB's certification process is validated as sound, but access is currently limited to those communities who have been added to the *First Nations Fiscal Management Act*. As many large-scale resource development projects affect some of the most vulnerable First Nations, Metis and Inuit communities in Canada, certification remains a challenge.

Own-Source Revenue policy

Canada's own-source revenue policy evaluates Indigenous government's ability to generate income for itself against the level of federal transfer it can receive. This policy creates a disincentive for financial independence given that transfers will decrease as First Nations, Metis and Inuit communities generate more income. Only by exceeding federal transfer amounts through own-source revenue will the self-government model ever be financially viable for Indigenous communities.

Resource Revenue Sharing

As natural resource rights are shared by provincial, territorial and federal governments, revenue sharing agreements cut across political, constitutional, jurisdictional, and economical boundaries. In developing resource revenue sharing policy, one must consider land-claims, consultation, capacity, governance, resource management, and ownership, among others.² This system can cause confusion for First Nations, Metis and Inuit communities trying to navigate or promote their resource development opportunities.

Potential Opportunities

To fully include Indigenous communities in economic development, community leaders require an enabling environment that supports education, collaboration, and long-term investment. Current networks can be better leveraged to be more inclusive and generative while innovative

² Adkins, S., Annis, K., Isaac, T. & Miller, R.J. (2009). *Recent Developments in Resource Revenue Sharing with First Nations*. Ottawa: McCarthy Tétrault.

ideas to build bridges between stakeholders will serve to strengthen future development initiatives.

Technical Capacity

By offering FMB services to all Indigenous groups regardless of their status with the *First Nations Fiscal Management Act*, the Government of Canada can help build technical capacity and reputational capital for all Indigenous communities. For First Nations, Metis and Inuit groups outside the purview of the Act, the Government of Canada can provide outreach and additional funding to develop their financial management capacity in order to complete the FMB certification process.

Creating additional policy and institutional infrastructure may spur economic development in First Nations, Metis and Inuit communities, but doing so requires strong and sound governance. Accreditation and certification processes can generate the technical capacity required for good governance. First Nations, Metis and Inuit communities can develop skills and operating standards that are attractive to potential development partners. Accreditation can create mutual trust by defining expectations and creating transparency and accountability. An Indigenous organization experienced in accreditation might lead a community assessment to determine the appetite for accreditation or a loan guarantee instrument that will facilitate equity participation.

Long-Term Funding

First Nations, Metis and Inuit communities require stable long-term funding to make significant gains in economic development. Currently, communities often work under short-term contribution agreements. Having an independent third party develop and administer governance assessments for all interested Indigenous communities can help demonstrate long-term, multi-stage financial feasibility to partners and funders. These assessments would be legitimized using a balanced approach, consulting both federal policy guidelines on risk-based fiscal transfers and First Nations, Metis and Inuit communities. Benefits could include longer-term federal funding, access to credit at lower interest rates, and increased major resource development.

Regional Platforms

First Nations, Metis and Inuit communities can work with other regional actors to develop long-term strategies around land use and economic development. These stakeholders may include municipal councils, environmentalists and developers, among others. This collaborative approach enables Indigenous communities to align their needs with available opportunities. Regional strategic planning will provide First Nations, Metis and Inuit communities with a platform to recruit assistance in environmental assessments, business and employment, and overall community readiness to undertake major and/or multiple resource development projects. Continuous local consultation with regional economic development leaders will allow for all neighbouring communities and stakeholders to contribute to project negotiations and manage the broader impacts of development.

As many Indigenous communities are remote, establishing comprehensive and up-to-date regional resource centres may prove effective. Communities considering resource development opportunities could work with onsite staff, search for experts and consult academic affiliates.

The regional sites could create a network that allows First Nations, Metis and Inuit communities to share resources, ask questions and offer support.

Resource Revenue Trusts

By creating a trust agreement, Indigenous communities can strike a balance between paying out real-time benefits and saving for the future. This trust can be designed to hold earnings from projects while still funding activities from the interest, and it can be structured in perpetuity to extend the principal for future generations. Developing this type of financial vehicle will require expertise in corporate, tax and Indigenous law, as well as support from the broader community.

Aboriginal financial institutions (AFIs)

AFIs can and should be key players in improving First Nations, Metis and Inuit financial literacy. Banks reach a large number of people through face-to-face interactions and online tools, most all of which help individuals and families to plan for the future, receive advice, develop saving skills and choose appropriate products. As people are most interested in financial learning when it relates to a real life financial decision, AFIs provide an opportune moment to empower First Nations, Metis and Inuit clients through education and knowledge.

Discussion Questions

Increasingly, governments and industry are collaborating with First Nations, Metis and Inuit populations to develop natural resource projects. Revenue sharing agreements are of mutual interest, but Indigenous communities may not have the capacity to leverage these revenue streams to their full advantage. Although consultation is becoming normative, communities may still face internal, systemic gaps that prevent true collaboration and meaningful engagement in resource development projects. In preparation for the discussion, we encourage participants to reflect on the following questions:

- What actions are required by each actor – governments, financial institutions, private-sector investors and First Nations, Metis and Inuit communities – to improve financial literacy and management for First Nations, Metis and Inuit communities?
- How might different levels of government collaborate to provide accessible supports to First Nations, Metis and Inuit communities?
- In addition to the capacity and funding challenges mentioned, what other factors can have an impact on financial literacy and management in First Nations, Metis and Inuit communities?
- How can we adapt current legislative and policy mechanisms to overcome barriers to First Nations, Metis and Inuit economic development? What are some of the promising approaches that should be explored further?
- What can be done to address Canada's own-source revenue policy as it relates to First Nations, Metis and Inuit economic development?



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