

# TEN TIMES HARDER

## HELPING FIRST NATIONS GET INTO THE GAME



Investment in a community determines the amount of jobs, the degree of financial independence, and the quality of community services and infrastructure. Until recently, the national First Nations' economic agenda has been dominated by public sector strategies – getting more government investment. This in spite of the fact, that when it comes to economic development, private investment is eighty per cent of the game. In Canada, only 20% of investment and new jobs come from the public sector.

One of the key reasons First Nations have looked to government for investment is that they are at a great disadvantage when it comes to attracting private investment and receive only a tiny share of the investment in Canada.<sup>1</sup> Why are First Nations receiving such a small share of private investment? There are two basic reasons: (1) Private investment only happens when good quality roads, water and sewer and other basic infrastructure are in place, and there is a massive infrastructure shortage on First Nation lands. First Nations are not able to finance improvements on equal terms with other jurisdictions. (2) Even when the right infrastructure is in place, First Nations are disadvantaged because private investors either lack confidence or are reluctant to invest in communities that are overburdened with unnecessary bureaucratic reviews and approvals.

Established in 1989, the Indian Taxation Advisory Board has spent fifteen years working with First Nations trying to improve this situation. The passage of the *First Nations Fiscal and Statistical Management Act* (FSMA) is a critical step towards achieving that goal. Developed by First Nations, the FSMA is the first comprehensive national initiative aimed at bringing more private investment to First Nations.

The four institutions that will be created as a result of this legislation, will together help First Nations develop infrastructure and improve investor confidence. They are not the whole solution but they are definitely a strategy to improve the current picture.

### THE CURRENT PICTURE

Economic development involves both the public and private sectors.

#### Public sector role:

Governments use their revenues to pay for local services and infrastructure such as roads, water and sewage systems. A typical Canadian community can finance \$6 million in new infrastructure from \$1 million in annual property tax revenues.

A typical First Nation community must commit \$3 million (**three times as much revenue**) to finance the same amount of infrastructure.

Typical Canadian Community:      \$1 Million Annual Tax Revenue = \$6 Million Infrastructure

Typical First Nation:                      \$1 Million Annual Tax Revenue = \$2 Million Infrastructure

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<sup>1</sup> It is not possible to say precisely how small. It is certainly smaller than the First Nation share of the population. However, there are no quality statistics about investment on First Nation lands.

## Private Sector Role:

Local governments use their infrastructure and services to entice investors to build residential, commercial, and industrial developments on their land. This creates jobs and wealth. A typical Canadian community will entice \$5 million in private investment for every \$1 million it invests in infrastructure improvements.

A typical First Nation will entice only about \$1.5 million in business investment from that same investment in public infrastructure. That is about **one quarter the benefit** that a typical Canadian community receives.

Typical Canadian Community:      \$1 Million New Infrastructure = \$5 Million New Investment

Typical First Nation:                      \$1 Million New Infrastructure = \$1.5 Million New Investment

What's the bottom line for First Nations? First Nations must pay "triple" the going price for infrastructure. Second, First Nations receive only one quarter the economic payoff from their infrastructure. The net result – **wealth is roughly ten times harder to create on First Nation lands than elsewhere.** These problems are represented in the figures below.

**FIGURE 1: WEALTH CREATION IN A TYPICAL CANADIAN COMMUNITY**

Figure 1 shows a typical Canadian community where \$1000 in annual local revenues brings \$30,000 into the local economy.

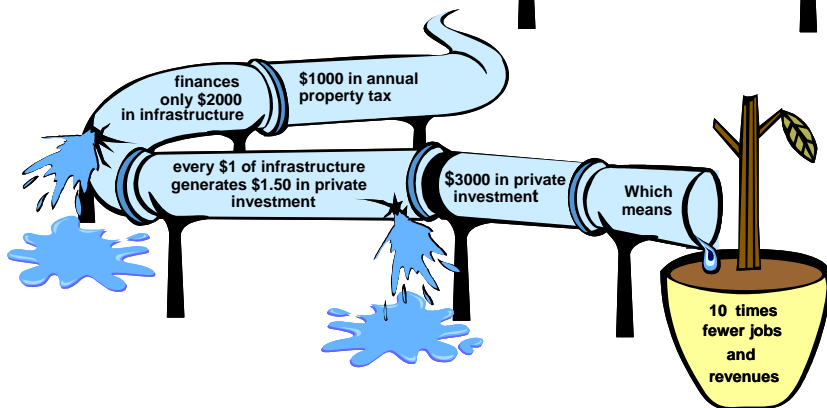
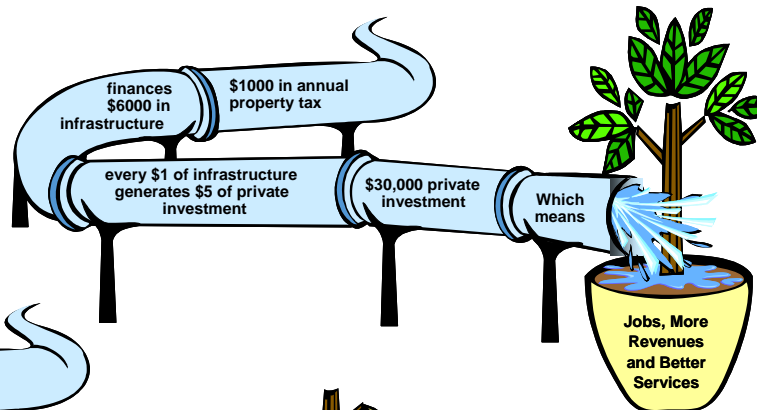


Figure 2 shows how it is working for a typical First Nation where that same \$1000 is generating only one-tenth the new wealth or \$3000. This means fewer jobs, less revenue, and poorer services.

**FIGURE 2: WEALTH CREATION IN A FIRST NATION COMMUNITY**

## IMPROVING THE CURRENT PICTURE

The "solution" to improving the current picture is to provide First Nations with the tools, certainty and authority that other governments have. The FSMA will provide some of the tools. The institutions created by the FMSA will start plugging the leaks described above by:

- improving First Nations' access to capital so they can buy infrastructure more "cheaply";
- helping First Nations get the best infrastructure for their money;
- creating better information about First Nation communities and their investment opportunities;
- promoting First Nation investment opportunities; and
- inspiring investor confidence in financial reporting, fair process and First Nation administrations.